'AN'S FINANCIAL RELATIONS WITH THE UNITED STATES

BY

GYOJU ODATE, B. S., A. M.

SUBMITTED IN PARTIAL FULFILMENT O. THE REQUIREMENTS
FO: THE DEGREE OF DOCTOR OF PHILOSOPHY
IN THE
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COLUMBIA UNIVERSITY

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To

MY FRIEND

M. OWAKI

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INTRODUCTION

The financial relations between Japan and the United States are of relatively recent origin. Only since the opening of the great war in 1914 have they become of prime importance. During the past few years, they have assumed particular complexity, and a great variety of problems has developed which affects likewise the phase generally known as international banking as well as domestic banking organization, particularly in Japan. These problems have undergone a series of changes, and new aspects have assumed importance from time to time. Discussion of them has been fragmentary and concerned rather with the difficulties of the moment than with any systematic and extended survey of the situation as a whole. Neither has there been any attempt made to indicate their inter-relations.

In the present study, the effort has been to consider these problems systematically from the Japanese point of view, with the primary purpose of presenting to the American public Japanese experience during this period. As the foreign trade of Japan is an integral part of her economic structure, the sudden change in her international financial relationships has had a striking effect upon her banking and financial situation. Her experience is very interesting as well as instructive, but the facts are scarcely known outside of Japan.

Prior to the outbreak of the great war in 1914, the United States was primarily occupied with domestic trade, and regarded foreign trade rather as an outlet for a domestic surplus of goods than as an integral part of her trade or-

ganization. Moreover, her vast undeveloped resources not only absorbed her own capital, but required great amounts of foreign capital as well, so that she was a debtor nation. The defective financial organization which then existed, in particular the decentralized banking system, also contributed its part. In consequence, before the war the United States played a relatively small part in international trade as an exporter of manufactured goods.

Conditions in Japan were no better. Her national finances were in a strained condition, due to the enormous foreign debt incurred during the Russian-Japanese War of 1904. In addition, her national resources were poor and her financial organization was defective. Both the United States and Japan, therefore, depended upon London for the financial settlement of their foreign trade.

The outbreak of the war in 1914 radically changed the situation. Great industrial activity in both nations occurred from 1915 on, in order to fill the orders from Europe for war materials, and from the neutral countries for goods to take the place of imports that used to come from the belligerents. As the war progressed, the trade and industry of both the United States and Japan flourished as never before, and their financial status was destined to change rapidly from that of debtor to creditor.

From the middle of 1916, London began to lose its financial position, and the foreign trade of both the United States and Japan could no longer be financed through that city. As the currency of no third country could compare with the former position of England, while the currencies of both the United States and Japan, fortunately, had suffered no international depreciation, the logical alternative was direct exchange between Japan and the United States. Henceforth, the city of New York assumed the former financial position of London, and the international balance

of Japanese foreign trade had to be settled through the city of New York.

These radical changes in the financial relationships between the United States and Japan raised a number of important financial problems. In the first place, existing methods of financing were not adequate to meet the new situation because of the poor quality of their financial machinery. Second was the growing importance of America's long term investment in the Orient. The solution of these problems and the encouragement of closer financial and economic ties between the United States and Japan involved many important banking and financial problems in both countries.

Neither the United States nor Japan possessed a free gold market; both dollar and yen exchanges, in particular the latter, were subject to great fluctuations in rates; and their currencies were not in wide demand. But a more serious problem was the complete lack of standardized commercial paper, namely, the bank acceptance, and the lack in Japan of a well developed open discount market, which is the nucleus of international finance. In the United States, this important financial machinery had been introduced only in 1914, and it was still in the very beginning of its development. The absence of these prime factors of international finance in Japan, and their partly developed condition in the United States, affected the entire financial organization in both countries in respect to the financing of their foreign trade. In the case of Japan, the official rate of the Bank of Japan was not, in fact could not be, an effective means of controlling market rates; and therefore there was not the relation between the ordinary commercial banks and the central bank which should exist. Again, there was not only lack of cooperation between the domestic commercial banks and the exchange banks, which specialized in the

financing of foreign trade, but there was a positive conflict of their interests. The only possible means for the exchange banks to procure funds was to borrow from the central bank, and this involved the further problem of note issue. As the note issue of the Bank of Japan was under the dictatorial control of the Finance Minister, his relation to the money market was of vital importance, and his actions in that connection, were by no means faultless. Finally, Japan's financial relations with foreign countries were not at all close.

In the case of the United States, the city of New York, lacking a well developed open discount market, was deficient as a financial center. Furthermore, the city was also without other factors which are necessary to fit a money market for world finance. It had practically no capital investment outside of Europe and its foreign trade was not evenly distributed, but the greater part of it was with Europe. American banks were not well represented in foreign countries, particularly on the Asiatic coast, while the city of New York was not well supplied with representatives of foreign banks.

Considering the efforts made to solve the new situation after the dislocation of the world's financial center, the most important among the methods employed to finance Japanese foreign trade, in particular the American-Japanese trade, was the shipment of specie from the United States to Japan. In turn, Japan exported most of this specie to the countries from which her imports amounted to more than her exports. But even this method ceased to operate with America's proclamation of an embargo on gold exports, which took place soon after her entrance into the war. Following the American example, Japan also at once placed an embargo on gold exports in order to protect her reserves. Japanese importers, in particular those who dealt in raw cotton from

India, were hard hit by the embargoes, while her export merchants were deprived of the means of obtaining the proceeds of their trade. These funds were left to accumulate in the city of New York without much prospect of being withdrawn. The exchange rate was left wholly to the natural demand and supply of bills, which was very adverse to the interest of Japanese exporters. The Japanese government was therefore forced to step in to adjust the strained exchange situation. Among the several methods of adjustment, the principal one undertaken by the government was the issue of bank notes through the Bank of Japan, based on Japanese funds which had been collected and accumulated in the city of New York. In order to encourage her export trade, and cherishing somewhat Mercantilistic ideas, the government issued these bank notes in large quantity. As there was no cooperation at the time between the domestic commercial banks and the exchange banks, the latter were constantly in dire need of funds to meet the ever-growing demand of the exporters, while the former suffered rather from a plethora of funds. The official bank rate was powerless to adjust the situation. The total result of these anomalous conditions was the well known social and economic evil of inflation. The acute tension of the economic situation was only relieved by the sudden cessation of the war in Europe.

In the course of events, there were numerous proposals for remedying financial and economic ills, both during and after the war. Few of them had scientific value. Thoughtful financial experts in the country, however, saw the fundamental weaknesses in Japan's financial structure, and after conferences and mature deliberations, finally introduced the bank acceptance and the discount market system into Japan as a permanent cure for her financial ills. In view of the fact that several difficulties lie in the way of

the growth of the new system, its development may take years; but its adoption put the Japanese financial organization upon the same footing with those of Europe and America.

Finally, as regards the problem of long term investment, it is a satisfaction to observe that there is lately a growing interest in American-Japanese mutual investment in the East, in order to bring about a closer economic tie between the United States and the Orient. Japan and the rest of Asia require a vast capital, while they afford one of the best investment fields for the growing surplus capital of the United States. Since American-Japanese mutual investment is a very late development, the present amount of mutual investment is negligible and its course of development is not without certain difficulties. In many respects, there is certainly a lack of real understanding between the United States and Japan, and it becomes an impediment to the undertaking of any cooperation. Conditions in the Japanese investment market are practically unknown to the American public. The Asiatic nations are regarded as countries of more or less political instability, and therefore not as satisfactory places for sound investment. There is also a lack of American banking facilities, and the legal status in regard to foreign investment in both the United States and Japan is by no means encouraging. While closer financial and economic cooperation between the great Pacific nations can not be accomplished in a year or two, it is of the highest importance to endeavor to remove the obstacles and consciously promote the movement.

CHAPTER I

Trade Between the United States and Japan

I. GROWTH OF THE FOREIGN TRADE OF JAPAN

The basis of international financing and foreign exchange is found in the commodity movements which take place. To care for these is the basic financial problem, and all problems concerning international loans, interest payments and payments for services, such as insurance and shipping, rendered by one nation to another, are derivatives of it. For an adequate understanding of American-Japanese financial relationships, we must, therefore, commence with an analysis of trade between the United States and Japan.

The history of the foreign trade of Japan is the history of her modern development. As Japan is a small mountainous island with poor soil, her economic development must depend in large part upon the growth of manufacturing and foreign trade. In both these respects she has shown rather remarkable progress.

In 1880 the total value of the imports and exports of Japan was only 65,000,000 yen.[1] In 1900 it had increased to 485,000,000 yen; in 1913 to 1,362,000,000 yen; in 1918 to 3,630,000,000 yen and in 1920 to 4,272,000,000 yen.[2] The total imports and exports of the United States likewise showed great increase. In 1900 they amounted to $2,244,000,000; in 1913 to $4,279,000,000; in 1918 to

[1] One Yen = $.4985 (par).

[2] Appendices 1 and 2.

$8,865,000,000; and in 1920 to $13,506,000,000.[1] It can be seen from these figures that Japan's total volume of foreign trade is very small as compared with that of the United States, being only about one-tenth in 1900, one-sixth in 1913, one fifth in 1918 and again one-sixth in 1920; but its rate of expansion has been greater. In 1920 the total foreign trade of the United States was 5.53 times as large as in 1900, while that of Japan was 8.81 times as large.

A change has also occurred in the character of Japanese exports. While relatively recently they were confined to the surplus produce of the country, exports of manufactured goods have gradually increased until at the present time they greatly exceed the exports of raw materials. A gradual change in the distribution of Japanese foreign trade is also apparent. In 1914, 78 per cent was divided between the British Empire, the United States, and China. While Japan is a heavy purchaser of raw materials from the British colonies and dependencies, particularly India and Australia, her trade with the United Kingdom proper on the whole exhibits rather a declining tendency. On the other hand, her trade with China and the United States is of growing importance and exhibits a rapid increase. This increase is particularly marked since the Great War.

2. PLACE OF THE UNITED STATES IN THE FOREIGN TRADE OF JAPAN

During the present century, about 30 per cent of Japan's export trade has been with the United States, while the imports of Japan from the United States, which from 1900-1913 inclusive, amounted to 16.93 per cent of her total imports, have increased for the years 1914—1919 inclusive, to 26.92 per cent. During the period of the Great War, the average percentage of America's share in the total foreign

[1] Statistical Abstract of the U. S., 1920, p. 397.

trade of Japan had risen to 28.38 per cent. Roughly speaking, then, somewhat less than one-third of Japan's foreign trade is with the United States, and the latter enjoys first place with respect to volume of trade among the nations with whom Japan trades. China occupies second place, but she has enjoyed less than one-fifth of the total volume of Japan's foreign trade for the past nineteen years. The United States is the first customer of Japan as well as her greatest source of raw materials, with a still brighter prospect in this respect for the future.

3. PLACE OF JAPAN IN THE FOREIGN TRADE OF THE UNITED STATES

About one-third of the imports to the United States from Asia come from Japan, and of America's total exports to Asia more than two-fifths go to Japan. The average imports to the United States from Japan from 1900—1919 inclusive, were 5.90 per cent [1] of her total imports, while exports to Japan for the same period comprised 2.20 per cent of America's export trade. But Japan's relative position in the foreign trade of the United States is greater than these figures would indicate, and much growth has been shown during the war period. In the fiscal year ending June 30, 1914, Japan occupied sixth place [2] in respect to the total foreign trade of the United States, coming after Great Britain, Germany, Canada, France, and Cuba, in the order named. In 1918 Japan occupied fourth place in the total foreign trade of the United States, ranking after Great Britain, Canada and France; while she ranked third in the import and fifth in the export trade of the United States. In 1920 she occupied fifth place in the total foreign trade of the United States.

[1] Appendix 3.

[2] Appendix 4.

4. PRINCIPAL COMMODITIES EXPORTED TO THE UNITED STATES FROM JAPAN

The varieties of Japanese merchandise exported to the United States number more than two hundred and fifty. The principal commodities are, however, seven in number—raw silk, tea, silk fabrics, straw braids for hat manufacture, copper, matting and porcelain. The total amount of exports of these seven articles in 1913 was 155,903,000 yen, comprising 84.51 per cent of Japan's total exports to the United States, while in 1918 it amounted to 367,132,000 yen, comprising 70 per cent of Japan's total exports to the United States. Among the seven commodities, raw silk accounted for 188,917,000 yen or 62.83 per cent of her exports to the United States in 1913, and 370,337,000 yen or 61.11 per cent in 1918. Exports of tea amounted to 8,847,000 yen or 4.79 per cent of total Japanese exports to the United States in 1913, and 23,056,000 yen or 3.64 per cent in 1918. The United States has long supplied the largest market for Japanese raw silk and tea. During the period 1900 to 1913 inclusive, 68.97 per cent of the total Japanese exports of raw silk were to the United States, while from 1914 to 1918 inclusive, 84.90 per cent was exported to the United States. During the fourteen years of the pre-war period, 87.14 per cent of Japanese exports of tea entered the United States, while during the war period, 1914 to 1918, the percentage was 84.64 per cent.

Let us turn now to the relative importance to the United States of the imports from Japan of these seven articles. During the pre-war period, 1900—1913 inclusive, Japan supplied 56.71 per cent of the total imports of raw silk into the United States. In the case of tea, Japan supplied 45.62 per cent during the same period; of mats and matting, 61.40 per cent; of porcelain, 10.57 per cent; of silk fabrics, 12.55 per cent; of braids for hat manufacture, 24.92; and of copper, 3.96 per cent.

For the war period, 1914 to 1918, these percentages have undergone a great increase. Japan supplied 76.73 per cent of the raw silk imported into the United States, and 41.37 per cent of the tea imported. Japanese mats and matting represented 75.01 per cent; copper 4.25 per cent; and porcelain wares 35.70 per cent of American imports of these articles. Japan supplied 24.74 per cent of United States imports of silk fabrics, and 56.99 per cent of the braids imported.

In 1913 Japanese commodities imported into the United States to a value of more than $1,000,000 numbered nine. In 1918 the number had increased to twenty-seven or more. The principal Japanese products exported to the United States, aside from those just mentioned, are vegetable oils, waste silk, brushes, peanuts, peas and beans, rice, camphor, hats and caps, buttons, crab meat, cotton textiles, matches, manufactures of silk cloth, paper, starch and toys. In 1918 Japan supplied about 50 per cent of the antimony, 90 per cent of the brushes and 80 per cent of the buttons imported into the United States. Japan has the monopoly of the American market for camphor. She also supplied 62 per cent of the hats and caps; 27 per cent of the matches; 76 per cent of the peanuts, and 30 per cent of the vegetable oils imported.

Of commodities imported into the United States from Japan, straw matting, copper, and silk gowns have shown a gradual decrease, while imports of straw braids, porcelain, and bamboo wares have remained rather stationary. The volume of imports of tea is slowly increasing in absolute amount, but comprises a declining percentage of the total trade. A marked increase has taken place in imports of waste and raw silk, buttons, brushes, antimony, toys and cotton textiles.

5. PRINCIPAL COMMODITIES IMPORTED FROM THE UNITED STATES BY JAPAN

The principal commodities imported from the United States by Japan are cotton, kerosene oil, wheat and wheat flour, sole leather, locomotives, railway cars, steam boilers and engines, bridge and building materials, steel rails, iron nails and various kinds of iron and steel, such as iron bars and rods, iron and steel plates, sheets, pipes and tubes.

During the period 1900 — 1913 inclusive, the United States supplied 24.35 per cent of the total Japanese imports of cotton and 69.10 per cent of the kerosene oil imported. For wheat flour the percentage was 94.68 per cent; for sole leather 76.69 per cent; for steel rails 40.92 per cent; and for iron nails 47.09 per cent. The United States supplied 30.35 per cent of the locomotives, railway cars, steam boilers and engines; 44.30 per cent of the iron and steel pipes and tubes; 8 per cent of the iron and steel plates and sheets; and 3.41 per cent of the iron bars and rods imported into Japan.

During the war period 1914 — 1918 inclusive, there was a significant increase in iron and steel goods imported into Japan from the United States, but a less marked change was noticeable in the other principal commodities imported.

Turning to the composition of American exports to Japan, during 1900 — 1913 inclusive, cotton represented 17.14 per cent of total exports from the United States to Japan; kerosene oil 12.77 per cent; wheat and wheat flour 17.13 per cent; and sole leather, iron nails, iron and steel pipes, tubes and locomotives, engines and railway carriages together, 9.21 per cent. Thus these eight commodities accounted for 76.55 per cent of the export trade of the United States with Japan. After the outbreak of the war in 1914 and the consequent stoppage of iron and steel imports from England and Germany, there was an enormous increase in such imports from the United States. In the trade for

1917, iron and steel goods represented more than 50 per cent of all the American exports to Japan, while cotton represented 23.38 per cent. The other important commodities imported from the United States in 1917 were various kinds of machinery, bridge and building materials, and many chemicals such as carbolic acid, caustic soda, soda ash, aniline dyes and rosin.

Of commodities exported from the United States to Japan, kerosene oil, wheat and wheat flour and sole leather have shown a tendency to gradual decrease, while steel and iron of various kinds, from crude ore to manufactured goods, machinery of many descriptions, and cotton are of more rapidly growing importance.

6. FUTURE OUTLOOK

From the foregoing analysis of the trade between the United States and Japan, it is seen that the trade between them has increased very rapidly, in particular during the war and since the armistice, and that the principal articles which the United States imports regularly from Japan are either commodities such as silk, tea and camphor which she does not produce herself because of conditions which make production unprofitable, or those commodities of which the domestic production is insufficient to meet the demand; for example, beans, peas, vegetable oils, peanuts, and straw braids for hats.

Heavy purchases by the United States enable Japan in turn to buy from the United States many raw, semimanufactured, and manufactured materials which the United States produces or can produce in excess of its domestic needs. Examples of such articles are raw cotton, iron and steel, machinery and engines, kerosene oil and chemicals. Japan will be a heavy purchaser of American cotton and of partly manufactured American products for years to come, especially of such articles as can be turned out most cheaply and efficiently because of the large scale operations and the

highly efficient machine methods employed in the United States. The vast smelters, steel mills, iron works, tanneries, and coal tar industries of the United States are so organized as to allow their products to be marketed in Japan. In other words, there is a sound economic basis for an exchange of commodities between the two countries to their mutual advantage. Moreover, the United States possesses ample purchasing power to enable her to buy Japanese goods, while Japan and the rest of the Orient give promise of potential purchasing power for American goods, with the gradual rise in their standards of living. In consequence, it is perhaps safe to say that the American-Japanese trade is likely to increase steadily year by year, and a part of "the habit, developed during the war, of trading with the United States, her neighbor across the Pacific, is likely to continue",[1] unless some obstacle such as a higher protective tariff impedes their trade relations. It is improbable, however, that the enormous expansion of American-Japanese trade during the war can be maintained undiminished just after the eventful period. The war-time expansion of American-Japanese trade was well sustained until the year 1920; but the trade in the first half of the present year has already shown a considerable shrinkage in physical volume as well as in value. This contraction is perhaps unavoidable in a period of deflation during which all business suffers from a dull market. Depressed trade relations will continue until the restoration of normal conditions, when trade and industry resume their onward movement.

This growing importance of American-Japanese trade and the change in the methods of financing the trade, due to the Great War, suggested the study of their financial relationships which is set forth in the following chapters.

[1] *Annalist*, July 19, 1920. Reprinted from the *Foreign Trade Record*, published by the National City Bank of New York.

CHAPTER II

Changes in the Financing of Japanese Trade With the United States

I. CHANGES IN FINANCING METHODS

Having analyzed the extent and character of the trade between the United States and Japan, we may now turn to a critical examination of the methods by which it has been financed. The rapid growth of American-Japanese trade, in particular during the war period, would alone have presented the problem of how to care for its financial needs. Added to this, however, was the dislocation, due to circumstances resulting from the war, of the machinery by which this trade had previously been financed. Prior to the war, the pound sterling was the currency used in making payments in this trade, and the financial methods employed afforded another instance of the well known three-cornered exchange, with balances settled through London. With the war, however, came a change in the position occupied by the pound sterling. It was no longer supreme, and London, with its depreciated currency, its absence of a free gold market, and its impediments to the free movement of goods, began to lose its former position. It neither could nor would finance trade as it once had. In consequence, direct exchange between the United States and Japan was an inevitable result.

But there were hindrances to the operation of direct exchange. Certain factors were lacking which are indispen-

sable to the successful employment of a currency in international trade financing, especially in connection with trade between two other nations, but also in no small degree applying to trade between another nation and itself. The currency chosen must be in demand. Auxiliary to such exchange is a large volume of foreign trade, a free market for gold, an open discount market, established banking relationships with other nations, and a large amount of long-term foreign investments. Yet these factors in great measure were lacking in both the United States and Japan.

2. FINANCING OF JAPANESE FOREIGN TRADE BEFORE THE WAR

A. *General methods employed.*

The financing of Japanese export trade before the war was effected in several ways. In the case of small transactions, cash with order or cash on delivery was generally specified. Large commercial houses with branches abroad sold on open account to some extent. But the greater part of the trade, whether it was carried on by Japanese or by foreign firms in Japan,[1] had been financed by means of letters of credit, mostly revocable by the issuer and also unconfirmed by the adviser. Drafts were then drawn either calling for delivery of documents against payment (D/P), or against acceptance (D/A), the former being more frequently

[1] Owing to the inexperience of Japanese merchants, the greater part of her foreign trade has been carried on through the medium of foreign firms in Japan which stood as commission houses between Japanese and foreign manufacturers and merchants. But the practice is steadily declining as Japanese merchants become more acquainted with the methods of trade. In 1900 nearly 74 per cent of the entire foreign trade of the port of Yokohama was in the hands of foreign firms, the remaining 26 per cent being the share of the Japanese merchants. In 1909, however, the share of the foreign firms had diminished to 57 per cent. *The Japan Year Book*, 1914, p. 445; *Japan Financial and Economic Monthly*, April, 1916, p. 25.

employed. The maturity of the draft was generally not more than three months. The exporter who drew a draft, discounted it at a Japanese exchange bank (usually at the Yokohama Specie Bank) through the medium of a bill broker [1] who specialized on foreign trade bills, and obtained the proceeds.

The authority to purchase [2] was usually employed for imports. The shipper in most cases drew on the Japanese importer, the bill generally bearing interest. Such an interest-bearing import bill was known as an interest bill.[3] Its maturity in most cases was from two to three months. The pound sterling was the only currency used in financing this trade, and balances were settled through London.[4] Similarly, in

[1] The first bill-broking house in Japan was established in Tokyo in 1899, the second in Osaka in 1902. The number increased gradually to more than 30 houses, but the important firms before the war were less than a half dozen. N. Takizawa, *The Financial History of Japan* (Tokyo, 1912), p. 679.

[2] The authority to purchase employed in Japanese import trade is really nothing more than an authorization by a bank in Japan to its New York agent to purchase the documentary draft of the shipper up to such and such an amount when drawn under certain conditions and within a certain length of time. Thus it virtually amounts to nothing more than an advice to the New York bank from its Japanese correspondent, that the drawee is regarded as good for the amount and likely to honor such drafts. B. O. Hough, *Elementary Lessons in Exporting* (New York, 1909), p. 99; George W. Edwards, "The Authority to Purchase," *Federal Reserve Bulletin*, August, 1921, pp. 926-931.

[3] On December 31, 1913, interest bills held by the Yokohama Specie Bank amounted to 50,796,530 yen. *Reference Book for Financial Matters*, Department of Finance (Tokyo, 1917), p. 156.

The interest charge is in most cases a burden on the importer. Interest is charged at the current rate for the period to maturity of the draft, plus the time required for the delivery of the draft and remittance of the proceeds. Irving National Bank, *Trading with the Far East*, New York, 1919, p. 66. *Cf.* also W. F. Spalding, *Eastern Exchange; Currency and Finance* (London, 1917), p. 157.

[4] For an excellent description of financing through London see Franklin Escher, *Elements of Foreign Exchange* (New York, 1911), p. 146.

the case of Japanese imports of raw cotton from the East Indies and the United States, and of wool from Australia, the city of London acted as a clearing house for Japanese foreign trade. Likewise payments for Japanese merchandise exported to China, the South Sea Islands and the western hemisphere, as well as to other parts of the world, were settled through the British metropolis.

The Bank of Japan, in order to facilitate Japanese international payments, devised a plan for holding a considerable amount of funds [1] in London banks, the greater part of which was invested in liquid short-term notes, such as British treasury bills or exchequer bonds, while the remainder was kept in the form of demand deposits at the Bank of England.[2] But, as will be seen from the figures of Japanese foreign trade, her imports before the war always exceeded her exports, save in one or two fiscal years. Added to this unfavorable balance of trade were her payments of large sums for interest on her foreign debt. In consequence, the maintenance of the reserve in the London banks caused considerable difficulty. The only method of replenishment employed was by means of floating foreign loans and holding a part of them in London, which method,

The keeping of reserve funds of the Bank of Japan in London dates from the time of the Russo-Japanese War (1904), although the very first holding of Japanese funds in London began in 1895 with the keeping in London of the Chinese indemnity (£38,000,000) paid to Japan by China.

The chief purpose of the plan was to maintain the quotation of Japanese foreign loans at a satisfactory point, as well as to facilitate her international payments in London. *Cf.* N. Takizawa, *The Financial History of Japan* (Tokyo, 1912), pp. 378, 765.

[2] No statement was ever issued by the Bank of Japan as to the nature of its investment. Speaking of India's funds in London, Mr. H. Withers refers to Japanese funds by saying that "India ought to have confined itself, like the shrewd Japanese, to Treasury bills and other short dated securities." *Money Changing* (London, 1918), p. 11.

however, had been much criticised in Japan. The amount of reserve funds[1] kept in London by the Bank of Japan is shown in the following table:[2]

Date	*Kept in Japan* Yen	*Kept in London* Yen	*Total Reserve* Yen
Dec. 31, 1905	36,764,979	442,411,056	479,176,035
" " 1907	44,562,216	400,631,754	445,193,970
" " 1910	135,126,467	336,872,818	471,999,285
" " 1911	132,854,370	231,231,080	364,085,978
" " 1912	136,035,701	214,714,786	350,750,487
" " 1913	130,316,877	246,175,427	376,472,304
" " 1914	128,503,546	212,609,523	341,119,069

B. *The Japanese exchange banks*

In the early days, the financing of Japanese foreign trade had been attended by many risks and inconveniences, because of the great fluctuation in exchange rates which characterized all Eastern currencies. As the conduct of this business required much skill and experience, the ordinary commercial banks had not developed any considerable amount of such business, but it had been performed largely by foreign banks in Japan. This practice, however, caused much inconvenience to Japanese merchants.[3] Accordingly

[1] Strictly speaking, this reserve fund kept in London belongs partly to the Japanese government and partly to the Bank of Japan. The relative share of each is never made public.

[2] *Kinyu Jiko* (Financial Matters). This most exhaustive statistical report on Japanese financial matters is published annually by the Department of Finance. "The Oriental Economist," *Economic Year Book* (Tokyo, 1917-1920), p. 87.

[3] Man denke nur daran, dass die sämtlichen Ausländer unter dem Schutz des sog. Rechtes der Extraterritorialien, nämlich auszer dem Bereich des japanischen Rechtes standen, während die kaufmannischen Sitten, Gewohnheiten und Rechte des Auslandes den Japanern wohl unbekannt waren. Kanju Kiga, *Das Bankwesen Japans* (Leipsic, 1904), s. 116. N. Takizawa, *The Financial History of Japan* (Tokyo, 1912), pp. 133-135. *A History of Banking in all Leading Nations*, vol. iii (New York, 1896), pp. 452-461.

the Japanese government planned to establish a semi-governmental exchange bank, whose sole function was to be the financing of Japanese foreign trade. In 1880 the Yokohama Specie Bank [1] was established with a subscribed capital of 3,000,000 yen. For more than thirty years after its establishment, the bank was the only native exchange bank, besides several foreign exchange banks [2] in Japan, and these few exchange banks monopolized the financing of her foreign trade. After the outbreak of the war in 1914, several other Japanese banks,[3] both chartered and private, also began to engage in the exchange business. But the Yohokama Specie Bank still continues by far the largest exchange bank in Japan by virtue of its long existence, greater capital [4] and the special privileges granted by the government. Accordingly, the major part of Japanese foreign trade to-day is financed by this single institution.

C. *Problems raised by this method of financing*

Certain difficulties were experienced under this system of trade financing. Consider the case of a bill of exchange drawn in pounds sterling by a foreign shipper on a Japanese

[1] T. Yokoi, *History of Japanese Commerce since the Restoration* (1868), (Tokyo, 1900), pp. 117, 208.

[2] Toward the end of the last century, there were four foreign banks which had branches in Kobe and Yokohama. *A History of Banking in all Leading Nations* (New York, 1896), vol. iii, p. 456.

In 1909 there were 15 branches of foreign banks in Japan. Their aggregate capital was 7,914,000 Yen. Their aggregate amount of incoming foreign bills of exchange was 244,835,000 yen and of outgoing 628,133,000 yen; while the total foreign bills of exchange handled by the Yokohama Specie Bank amounted to 85,298,000 yen, and bills discounted to 154,165,000 yen. *Ginko Benrau.* (*Hand Book of Banks*), Department of Finance (Tokyo, 1911), pp. 153, 674, 677.

[3] Fuller treatment in Chapter IV.

[4] The present capital and surplus are 100,000,000 and 50,000,000 yen respectively, having been increased on several occasions since the establishment of the Specie Bank.

importer. In due time the bill, accompanied by the usual documents, reached the exchange bank in Japan which issued the authority to purchase. It was impossible for several reasons, however, for the exchange banks to rediscount the bill. A discount market was lacking. The import bill was stated in pounds sterling, for which currency there was no market in Japan, and it was usually drawn on the importer and accepted by him, while it usually called for "documents against payment" (D/P), and was usually an interest-bearing bill. The importer who accepted the bill also opposed its resale by the bank from fear of having business secrets disclosed to his competitors. The draft, therefore, was simply retained in the portfolio of the exchange bank until maturity. In the case of exports, the sterling bill was sent to London and rediscounted there by the Japanese exchange bank which discounted it for the exporter. Rates were usually high, and the exchange bank was under the necessity of holding the bill during the time required to send it to London. This system threw a considerable strain upon the exchange banks.[1] Moreover, only a few exchange banks in Japan issued the "authorities to purchase" required for import trade. The only method of relieving the tie-up of the funds of the exchange banks was by borrowing more funds from the Bank of Japan. The Yokohama Specie Bank possesses the special privilege of borrowing 20,000,000 yen from the Bank of Japan at the rate of two per cent. But this amount was far from sufficient to finance the ever-increasing Japanese foreign trade, and the bank, therefore, was forced to borrow additional funds from the Bank of Japan at the current rate of interest. This condition in Japan created a very peculiar relationship between the exchange banks and the Bank of

[1] "Bank Acceptance," *Tokyo Bankers Magazine*, published by the Bank of Japan, May, 1919.

Japan. At the end of the first half of 1914, the total amount of loans of the Bank of Japan was 78,799,000 yen,[1] while loans on foreign exchange, which were mostly to the Yokohama Specie Bank, amounted to 33,920,000 yen, or 45 percent of the total loans. A large part of the Bank of Japan's loans thus represented advances to a single institution. No effort had been made to reform these conditions but they were left as they existed, when the Great War broke out in 1914.

In short, the indictment which may be raised against the system relates in large part to lack of development of an adequate financial mechanism in Japan. Specifically, the points may be classified as follows: (1) the small number of banks participating in foreign trade financing; (2) the absence of use of the bank acceptance; (3) the lack of coordination between domestic and foreign trade financing; and (4) the consequent impossibility of making surplus domestic funds readily available for foreign trade financing.

3. FIRST PERIOD (AUGUST 1914 — SEPTEMBER 1917)

A. *Loss by London of its position as the financial center*

The history of the financing of trade between the United States and Japan during the war falls into three periods: (1) from the opening of the war to September 1917, at which time the American embargo on gold exports was instituted; (2) from the latter date until the signing of the armistice in the fall of 1918; and (3) since the armistice. The outstanding feature of the first period was the shifting of the financial center from London to New York, and the effecting of the financial settlement of Japanese foreign trade through the latter city. The characteristic feature of the second period was the American embargo on gold ex-

[1] *Semi-annual financial report of the Bank of Japan*, 1914.

ports which resulted in the accumulation of Japanese funds in New York, and the unsuccessful attempt by the Japanese government to adjust the exchange situation. The notable incident of the third period was the beginning of a discount market in Japan.

The immediate effect of the outbreak of the war upon Japan was a sudden depression of business activity throughout the country, as was the case also in the United States and other neutral countries. The stock exchange in Japan was not closed, but dullness reigned. The foreign trade of Japan began to decline, both in exports and imports, with the abnormal rise of marine insurance rates due to the increased peril at sea, and with the disturbance of foreign exchange rates. This state of business depression continued until the middle of 1915. From this time on, however, industry began to revive. Large orders for munitions were received from the Allied nations and orders for various other goods from Asiatic countries and the South Seas, where goods from Germany and other belligerents had ceased to come.[1] There was great activity in shipbuilding, and many industrial enterprises were launched. Japan thus soon began to enjoy unprecedented business prosperity, due primarily to the enormous expansion of her export trade.

As Japanese export trade advanced with rapid strides, her merchants began to experience increasing difficulty in effecting financial settlements through London. In spite of all the difficulties encountered, however, London maintained its financial position for nearly two years after the outbreak of the war, and in consequence financial settlement of the trade between the United States and Japan was

[1] *Japan Financial and Economic Monthly* (English), (Tokyo, 1914-1917); *The Financial and Economic Annual of Japan* (English), the Department of Finance, Tokyo, 1915-1918; *The Oriental Economist* (Tokyo, 1914-1917); *The Osaka Bankers Correspondence*, 1914-1918.

effected through London until toward the end of the year 1916. In the latter part of that year, however, the foreign exchange system between London and the East Indies broke down, and almost simultaneously that between London and Australia dissolved as well.[1] A financial barrier between England and Asia was, in effect, created. Exchange operations between the British metropolis and Japan came automatically to a standstill. It was no longer possible for Japan to purchase raw cotton from India and the United States, or wool from Australia, with funds held in London, nor was it possible to finance the American-Japanese trade through that center. The depreciated pound sterling could no longer maintain its former position of preeminence, and in consequence other financing methods were required.

The causes which contributed to the loss of its position by London are well known, and require only brief mention. First was the increase of imports in the face of the decrease of exports from the United Kingdom, as may be seen from the following figures:

EXPORTS AND IMPORTS OF THE UNITED KINGDOM [2]

(In million pounds, i. e., 000,000s omitted)

	1913	*1914*	*1915*	*1916*
Exports	525.2	430.7	384.9	506.5
Imports	768.7	696.6	851.9	949.2

Second was the decreased use of her merchant marine for trade purposes. The British merchant marine had been conscripted for war purposes; and furthermore it was threatened constantly by the German submarine peril.

J. Inouye (Ex-governor of the Yokohama Specie Bank), "The Japanese Money Market," *Japan Financial and Economic Monthy,* March, 1918, p. 6.

[2] *Statistical Abstract for the United Kingdom* (1902-1916), London, 1918, p. 79; *Economist* (London), Jan. 15, 1916, p. 92; Jan. 20, 1917, p. 81.

Third was the efflux of specie from London banks, amounting to some £200,000,000 in all, from the opening of the war to the end of 1916. This reduced the gold reserve ratio of the Bank of England against note issues and deposits to 19 per cent in December 27, 1916.[1] A free market for gold practically ceased to exist in London. Aside from the loss of specie, there was, fourth, the inflation of currency, both notes and deposits.[2] The effect of all these causes upon the foreign exchanges is familiar, the pound sterling in New York being maintained at $4.76 only by means of "pegging."[3]

Turning now to the immediate causes which tended to cut off London from financing Japanese foreign trade, the first was the limitation placed upon the sale of Indian council bills and telegraphic transfers by the British government in December 20, 1916.[4] Indian foreign trade, as is well known, is financed by the sale in London of Indian Council bills of exchange and telegraphic transfers (drawn on the government treasuries in India) by the Secretary of State for India in London.[5] The war, however, brought about a great demand in London for the right to rupees in

[1] The proportion of gold reserve to liabilities of the Bank of England was 52 per cent on July 22, 1914. *The Bankers' Magazine* (London, Sept., 1914), p. 421; Feb., 1917, p. 327.

[2] Index number of the (London) *Economist*, July 1, 1914, 115.9; October, 1916, 208.7; November, 1916, 217.2, etc. *Cf. The Bankers Magazine*, London, Jan.-June, pp. 559-560.

[3] *The Commercial and Financial Chronicle*, New York, Jan.-Mar., 1916, p. 935; Jan.-Mar., 1919, p. 1114.

[4] (London) *Economist*, Dec., 1916, p. 1166; Jan. 6, 1917, pp. 2, 35.

[5] India adopted the gold exchange standard in 1893-1898, and the government of India undertakes the supply of currency as well as exchange. E. W. Kemmerer, *Modern Currency Reforms* (New York, 1916), pp. 124-147; W. F. Spalding, *Eastern Exchange, Currency and Finance*, 2nd ed. (London, 1920), ch. iv.

India, owing to the increase of exports from and the decrease of imports to India, the impossibility of gold shipment and other causes. But the government of India put restrictions on the sale of the bills, as the rupee balances in India were limited. These sales in London of council drafts mean a corresponding demand for rupees in Calcutta, Bombay and Madras. There was thus a great strain on Indian rupee balances.[1] For this reason, Japan could no longer finance the importation of Indian cotton by the purchase of Indian Council bills in London.

Another direct cause which kept London from financing Japanese foreign trade was the strained exchange relations between London and Australia, in particular from the early part of 1916. The adverse trend of Australian foreign trade, due primarily to shipping impediments and the large borrowing, in one form or another, by the Commonwealth Government from the British Government for war purposes, brought about very unfavorable exchange quotations against Australia.[2] Added to this was the embargo on gold exports from Australia in January 24, 1916.[3] The strained exchange relations between London and Australia become worse toward the end of the year, and the financing of Japanese-Australian trade through London came automatically to a standstill. Thus an additional obstacle was placed in the way of financing Japanese foreign trade through London. Sterling exchange fell off markedly. During the year 1913 the highest quotation of sterling in Yokohama was 24.25 pence; and the lowest 24.625 to one yen.

[1] G. F. Shirras, *Indian Finance and Banking*, 2nd ed. (London, 1920), p. 56; (London) *Economist*, Dec., 1916, p. 1213; Jan., 1917, pp. 2, 35, 136.

[2] (London) *Economist*, Jan.-June, 1916, pp. 628, 748; July-Dec., 1916, p. 367; *The Official Year Book of the Commonwealth of Australia*, Nov. 11, 1918, pp. 560, 588.

[3] (London) *Economist*, Jan.-June, 1916, p. 585.

But in November 29, 1916, the yen was quoted at 25.625 pence.[1]

B. *Direct exchange between the United States and Japan*

Different methods of financing were thus sought. But the currency of no third country could be compared with the former position of the pound sterling. French, as well as other European currencies, had depreciated more than the pound sterling, and could not be considered as a substitute. On the other hand, inasmuch as the currencies of both the United States and Japan had maintained their international position, and did not have internal depreciation to lower their value, as in the case of other currencies, direct exchange between them was the most logical alternative. Dollar and yen bills of exchange were thus employed for the very first time in the history of finance for the financial settlement of American-Japanese trade. But, as stated briefly at the opening of the chapter, there were many hindrances to the development of this method. Certain factors were lacking in both countries, which are indispensable to the widespread use of a currency in international trade financing. While they relate more particularly to the use of a currency in financing trade between two other nations, they are none the less applicable also to the use of a currency in financing its own country's trade. The currency chosen must be in demand. This implies a large volume of foreign trade, a ready discount market with standardized commercial paper and relatively stable money rates, established banking relationships with other nations, the maintenance of a free gold market, and a large volume of long-term foreign investments. To these, there may be added the possession of a merchant

[1] One yen—24,58d. (par); *The Bankers' Magazine*, London, Jan., 1917, p. 139; *The Oriental Economist Year Book* (Tokyo, 1919), p. 72.

marine and insurance companies, the absence of a protective tariff, an efficient cable service, and freedom from panics or financial crises.[1] These factors, however, have been lacking in a greater or lesser measure in both the United States and Japan.

The bill market in both countries is relatively new. The bank acceptance has been permitted to national banks in the United States only since 1914, while in Japan it was not found at all until May, 1919. The American discount market is still in the early stage of its development. The more serious obstacle is the call money market, which is based on stock exchange loans and daily settlements.[2] The latter thus absorbs the funds available elsewhere for the acceptance market, and renders it very difficult for discount corporations and bill brokers to carry their portfolios. It should be added that the Federal Reserve Banks, in particular at New York and Boston, have endeavored to develop their markets by the purchase of bills, other Federal Reserve Banks participating in the purchases of the first named. Bankers acceptances bought by the Federal Reserve Banks in the open discount market increased from $64,850,000 in 1915, to $1,809,539,000 in 1918, and to $3,143,737,000 in 1920.[3] Although Japan has been using trade acceptances in

[1] E. L. S. Patterson (of the Canadian Bank of Commerce), "London and New York as Financial Centers," in *The Annals*, Philadelphia, Nov., 1916; W. F. Spalding, "New York as a Monetary Center," *Bankers' Magazine*, London, Jan.-June, 1915, p. 198; F. A. Vanderlip, "New York as a Financial Center after the War," *The Bankers' Magazine*, New York, Nov., 1918, p. 508; Sir Edward H. Holden, "Maintaining London as the World Financial Center," *The Bankers' Magazine*, New York, Nov., 1918, p. 515.

[2] "Memorandum of Federal Reserve Agent at New York on Call Loan Rates," *Federal Reserve Bulletin*, April, 1920, p. 368; Pratt, *Work of Wall Street*; W. C. Van Antwerp, *The Stock Exchange from Within*, 1913, chs. iv, ix.

[3] *Seventh Annual Report of the Federal Reserve Board*, 1921, p. 52; *Fifth Annual Report of the Federal Reserve Board*, 1919, p. 19.

her domestic trade since 1882,[1] the use of bank acceptances in the financing of her foreign trade was first permitted to her banks in 1919. The regulations governing the practice with respect to trade acceptances are crude. According to the rules now in force,[2] the bill need not be based on an actual transaction, and may mature in one year. On December 31, 1913, the total volume of trade acceptances held by commercial banks in Japan amounted to 937,943,000 yen, and on December 31, 1920, the total held by commercial banks in Tokyo and Osaka amounted to 1,881,527,000 yen.[3]

The importance in this connection of established banking relationships with other countries is well illustrated in the case of London.[4] Likewise, Germany's commercial activities in South America were greatly aided by her bank-

[1] *The Regulation of Bills of Exchange and Promissory Notes*, 1882.

[2] Amendments of 1911.

[3] *The Oriental Economist Year Book*, 1917, p. 35; *Osaka Bankers' Magazine*, Feb., 1921.

One of the causes which stimulated the greater use of the trade acceptance in Japan, notwithstanding the reluctance of business men to have the bills which they have accepted appear in the market, is the imposition of a graduated stamp tax on the promissory note, while a flat stamp duty of three sen per bill, regardless of the face value of bill, is imposed on bills of exchange. The following is the graduated stamp tax for promissory notes:

	200	Yen	stamp	tax	.03 sen (1½ cents)
200	1,000	"	"	"	.05
1,000	5,000	"	"	"	.10
5,000	10,000	"	"	"	.20
10,000	20,000	"	"	"	.50
20,000	30,000	"	"	"	1.00
30,000	50,000	"	"	"	2.00
50,000	100,000	"	"	"	4.00
over	100,000	"	"	"	7.00

[4] *Campus*, the monthly publication of the Mercantile Bank of the Americas, July, 1920.

ing relations with those countries.[1] But the decentralized banking system of the United States, with its general prohibition of branches, rendered it necessary for American banks to rely upon correspondents in their international banking operations. Moreover, the American banks are smaller than those in European countries,[2] and in consequence are less known acceptors. On the other hand, American state banking laws in general prohibit foreign banks from establishing branches in the United States, permitting merely agencies which can not receive deposits.

C. *Development of direct exchange*

As a result of the difficulties mentioned above, the development of the new method of financing has been slow. The use of yen bills for Japanese imports has been very limited because of the entire absence heretofore of a discount market in Japan, and their employment was restricted to financing part of the cotton exported from the United States to Japan. On the other hand, the dollar bill of exchange came into wider use, not only in financing American-Japanese trade, but also in financing the trade of Japan with other countries, owing to the fact that the dollar bill of exchange has come to have a ready market in New York and elsewhere which was entirely absent prior to the Federal Reserve Act. In consequence, the city of New York assumed the former position of London with respect to the financing of Japanese foreign trade. In accordance with these changes, Japan in the first place adopted a new policy of drawing dollar bills on New York banks for Japanese exports to the United States. These dollar bills

[1] Georges Diouritch, *L'Expansion des Banques Allemandes à L'Étranger* (Paris, 1909); W. H. Lough, *Banking Opportunities in South America*.

[2] "Capital and Surplus, Deposits and Acceptances of Leading Banks in Europe," *Federal Reserve Bulletin*, vol. vi, 1920, p. 374.

were disposed of in New York in the open discount market after their acceptance. But on the other hand, the financing of Japanese imports was not as simple. While it was greatly desired to employ bills drawn in yen, the absence of a discount market in Japan caused the use of dollar bills instead and these bills after they reached Japan were kept in the bank's portfolios until maturity, as in the past. The second step taken by Japan as a result of the change in the financial center, was the adoption of a policy of collecting and keeping the proceeds from her export trade, not in London, but in New York, and settling her international balances at the latter center. This was accomplished by converting the bills representing Japan's exports to China, the South Seas and elsewhere, into dollar bills of exchange payable in New York.

CHAPTER III

Financing Trade Between the United States and Japan (continued)

I. Second Period (September, 1917—November, 1918)

A. *Gold movements and government operations during the first period.*

As a result of the heavy balance of payments owing to her during the first period, Japan imported considerable specie. In the fiscal year 1916, the trade balance alone in favor of Japan reached 371,000,000 yen; and for the first nine months of 1917, such excess of exports was 440,000,000 yen.[1] To offset this balance, more than 100,000,000 yen of specie was imported into Japan during the year 1916. The greater part of this sum was shipped from the United States.[2] In the first nine months of 1917, Japanese specie imports amounted to 384,324,000 yen, of which sum 338,479,000 yen, or 88 per cent, were imported from the United States.[3] Yet at the end of December, 1916, the Japanese funds accumulated abroad amounted to 486,-940,000 yen,[4] about half of which was held in New York, while the other half remained in London. The effects of this influx of specie upon Japanese economic conditions was

[1] *The Oriental Economist Year Book*, 1919, p. 206.

[2] *The Financial and Economic Annual of Japan*, 1918, p. 91.

[3] *The Oriental Economist Year Book*, 1919, pp. 206-210.

[4] *Ibid.*, p. 87.

easily discernible. The note issue increased 40 per cent during the calendar year 1916,[1] while the total bank deposits increased from 2,797,000,000 yen to 3,816,000,000 yen [2] during the same period. The Tokyo wholesale prices rose 21 per cent within the year, an increase since December 31, 1913, of nearly 50 per cent.[3]

In order to convert a current surplus at home into investment funds, as well as to disperse properly the funds abroad which still remained in great volume in spite of the specie imports, the government resorted to subscription to foreign loans, flotation of bonds for industrial undertakings, and redemption of government foreign loans. For the period under review, (i. e., from August, 1914, to September, 1917) Japan subscribed to Russian government loans 150,000,000 yen,[4] and to French government loans 67,510,000 yen;[5] while in January, 1917, 100,000,000 yen of British loans were subscribed in order to relieve the overstrained exchange relation between London and New York.[6] Japan floated many issues of industrial bonds which aggregated, in 1916, 95,000,000 yen.[7]

This method of financing Japanese foreign trade, primarily by the movement of specie, and secondarily by subscription to foreign loans, would have continued longer had the United States remained a free market for gold. But such freedom did not last beyond the month of September, 1917, when the United States instituted an embargo on gold exports.

[1] *The Financial and Economic Annual of Japan*, 1918, p. 135.

[2] *The Oriental Economist Year Book*, 1918, p. 20.

[3] *Ibid.*, p. 161.

[4] *Ibid.*, p. 85.

[5] *Ibid.*, p. 85.

[6] *The Japan Financial and Economic Monthly*, Tokyo, July, 1917.

[7] *The Financial and Economic Annual of Japan*, 1917, p. 5.

B. *The American and Japanese gold embargoes*

In September, 1917, the United States instituted an embargo on gold exports by presidential proclamation.[1] This was a real blow to Japan in that it prevented her from receiving the proceeds of her export trade in gold. No means remained of withdrawing funds collected and accumulated in New York. In consequence, new means of financing had to be devised, if she wished to continue her phenomenally expanded export trade; and the Japanese government actively considered the question. In September, immediately after the American embargo, the appointment of officials to be stationed at once in New York and London to attend to her financial affairs, was authorized.[2] In consequence, too, Japan herself proclaimed an embargo upon the export of gold.[3] She could remain a free market for gold only as long as the United States remained a free market, for it was from the latter that she obtained her principal supplies of gold. As a measure of self-defense, the embargo on gold exports was necessary in order to protect the specie reserve in the Bank of Japan.

The gold embargo resulted in the immediate discouragment of the Japanese-Indian trade.[4] Japan is a heavy purchaser from India, especially of raw cotton. In 1916, when the British authorities placed restrictions on the issue of Indian Council bills, Japan could no longer finance her Indian trade through London, nor was she able to finance it with Japanese funds kept in New York, due to the absence of established banking and financial relationships by American banks with those parts of the world. The only method of

[1] *The Commercial and Financial Chronicle*, Sept. 15, 1917, p. 146.

[2] *The Financial and Economic Annual of Japan*, 1918, appendix.

[3] *Ibid.*

[4] *Japan Financial and Economic Monthly*, Oct., 1917, p. 2; Nov., 1917, p. 30; Dec., 1917, p. 26.

financing that remained was by sending specie direct to India. The gold obtained from the United States by Japan had accordingly been shipped mostly to India to pay for Japanese imports from that country. The situation had already become acute toward the end of 1916. For the first eight months of 1917, Japan sent gold to India amounting to 102,949,000 yen.[1] The gold embargoes by the two countries automatically reduced Japanese-Indian trade, notwithstanding many attempts to maintain it at the former volume. In 1916, Japan imported 5,128,981 piculs[2] of cotton from India, in 1917, 4,495,140 piculs, and in 1918 only 2,903,000 piculs.[3] This decline was solely attributable to the new conditions created by the gold embargo. Henceforward, Japan had to purchase more cotton from the United States in spite of the higher cost of American cotton as compared with Indian cotton. In 1916, Japanese imports of American cotton were 1,614,661 piculs; in 1917, 1,704,972 piculs, and in 1918 they increased to 2,509,530 piculs,[4] whose value represented 40 per cent of the total Japanese imports of cotton. Similarly, it was now necessary to obtain other goods solely from the United States in order to relieve the abnormal exchange situation between the United States and Japan. These goods had not previously been obtained from the United States on account of the higher cost of the American produce.

But a more serious effect of the embargo was upon the financing of the Japanese export trade, which had shown a phenomenal expansion since the opening of the war. The excess of goods exported over these imported for the three years 1915 to 1917 inclusive, aggregated more than

[1] *The Oriental Economist Year Book*, 1919, p. 210.

[2] One picul = 133 pounds.

[3] *The Annual Report of the Foreign Trade of Japan.*

[4] *The Japan Financial and Economic Monthly*, Oct., 1917, p. 2.

1,100 million yen. To this amount must be added the freightage, insurance premiums and hire of shipping which yielded in all 751 million yen during the same period.[1] Thus Japan, during the three years in question, had a net balance of nearly two billion yen in her favor; and at the end of December, 1917, funds of the Bank of Japan held abroad (mostly in New York) amounted to 643,492,000 yen. Meanwhile there seemed no prospect of an early cessation of the war. The proceeds of Japan's export trade could only accumulate in New York, without any prospect of being withdrawn, while in Japan, the exchange banks were suffering from lack of funds with which to purchase the ever-increasing volume of export bills. The rate of exchange between Yokohama and New York had never been higher than $49.95 for 100 yen[2] before the war, or even in the first year of the war; but in December 15, 1917, it rose to $52.25 for 100 yen.[3] Government action was the only alternative to relieve the strained situation. In consequence the Japanese Government took the matter into its own hands.

The financing of Japanese foreign trade during the war played a very prominent part in her domestic financing and banking, as it is vitally interrelated to them, and the whole significance of it cannot be comprehended without careful consideration of her domestic finance side by side with the exchange problem. Consequently in the following pages all these financial and banking problems have been analyzed at some length and due prominence given to domestic conditions.

[1] *The Financial and Economic Annual*, 1918, appendix, p. 2.

[2] *The Oriental Economist Year Book*, 1917, p. 72; *Federal Reserve Bulletin*, Dec., 1919, p. 724.

[3] The figure is furnished by the Bank of Taiwan. See also appendix on yen exchange.

C. *Attempts to adjust exchange*

The principal methods employed by the Japanese government in its attempt to adjust the abnormal exchange situation were threefold: (1) subscription to foreign loans, as in the first period; (2) floating of special exchequer bonds; and (3) issue of notes.

The first attempt to adjust the situation was to invest the Japanese funds accumulated in New York in foreign loans or in the purchase of foreign loans of the Japanese government. This represented an attempt to fund short-term indebtedness to Japan into long term or to cancel Japanese debts previously incurred. Japanese bonds or debentures thus purchased or redeemed from the opening of the war to the end of 1918, amounted to 315,000,000 yen.[1] But the comparatively high prices of Japanese bonds and the relatively small amount appearing in foreign markets interfered with purchases. Bonds of other governments, therefore, were also purchased. Japan subscribed to British government loans of various descriptions to the amount of 180,000,000 yen during the period under review (i. e., from September, 1917 to November, 1918); 65,000,000 yen to Russian government loans, and 86,000,000 yen to French loans, while in 1918, she invested 100,000,000 yen in Chinese government treasury bills and exchequer bonds.[2] In addition to these, the government agreed to subscribe to more than 200 million yen of other bonds, if the same were issued.[3] Moreover, purchases made by private individuals and firms of bonds issued by the Allied countries, in particular the Anglo-French bonds, amounted

[1] *The Financial and Economic Annual of Japan*, appendix, p. 4.

[2] *The Oriental Economist Year Book*, 1919, p. 85. "Japan in the War Finance of the Allies," *The Commercial and Financial Chronicle*, New York, Aug., 1918, p. 550.

[3] *The Financial and Economic Annual of Japan*, 1919, appendix.

to some 290 million yen.[1] The entry of the United States into the war relieved the Entente powers of the necessity of obtaining funds from Japan.

The second method of adjusting exchange was the issue of special exchequer bonds. Their primary purpose was to procure funds with which to pay manufacturers for munitions exported to Russia and the other Allies, as well as to supply the exchange banks with funds for the purchase of bills without the danger of inflation. In consequence, in the early spring of 1917, the Diet passed a law authorizing the issue of such bonds to the maximum amount of 200,000,000 yen.[2] Before the end of the year, 150,000,000 yen of bonds had been issued, but the proceeds of the entire issue had been applied to the renewal of treasury bills of the Russian government and the payment of orders for munitions. Thus the exchange banks received no help in spite of the fact that they on December 31, 1917, held foreign bills amounting to 550 million yen, and sorely needed the funds. Early in 1918 the Diet authorized the raising of the maximum amount from 200,000,000 to 500,000,00 yen.[3] During the year 1918, special exchequer bonds had been floated to the amount of more than 300,000,000 yen,[4] but more than the half of this amount bore 2 per cent interest and the proceeds were applied to payment for war goods supplied to the Allied countries on credit. Consequently, the exchange banks were helped but slightly by the issue of these bonds, in spite of the fact that such aid was one of the two purposes for which the issue was designed.

[1] *The Financial and Economic Annual of Japan*, appendix, p. 4.

[2] *Ibid.*, 1918, appendix, p. 5.

[3] *Japan Financial and Economic Monthly*, April, 1918, p. 10.

[4] *The Financial and Economic Annual*, 1919, p. 5.

Had the government floated a great number of special exchequer bonds in order to provide a more adequate supply of funds for the exchange bonds, as well as to undertake foreign investments out of the proceeds thus raised through the government agency, from which the public expected much,[1] better results would have been obtained. But the government not only failed to assume the responsibility, but also failed to absorb funds from people of moderate means, for whom the floating of the bonds was obviously intended. The subscribers were mostly great banks and large commercial firms, and the bonds were freely utilized by them as collateral to secure current funds. They then enhanced inflation, instead of financing trade without the danger of inflation,[2] which was the intention of the government.

Neither the investment in foreign loans, nor the issue of special exchequer bonds at home, was adequate to procure sufficient funds for the exchange banks, and a third method was therefore employed; namely, the issue of bank notes based on the foreign bills held by the exchange banks, on the one hand, and on the accumulated funds in New York, on the other hand. The note issue of the Bank of Japan increased greatly after June 1917, as will be seen from the following table, which gives the amount of note issue, the gold reserve and the loans of the Bank of Japan at half yearly intervals since 1913:

[1] *Industrial Japan*, vol. xxi, no. 21, pp. 1-5, 33-40.

[2] *Japan Financial and Economic Monthly*, July, 1917, p. 15.

THE NOTE ISSUE, GOLD RESERVE, AND LOANS OF THE BANK OF JAPAN [1]
(*in thousands of yen, i. e., 000s omitted*)

	Amount of Note Issue	*Official Gold Reserve* [2]	*Actual Gold Reserve* [2]	*Total Loans*	*Loans on Foreign Bills*
1913 Dec. 31..	426,388	224,365	130,316	121,623	44,834
1914 Dec. 31..	385,589	218,237	128,503	87,385	46,682
1915 June 30..	337,447	217,868	......	......	......
Dec. 31..	430,138	247,417	136,785	50,360	20,787
1916 June 30..	429,330	257,560	170,000	41,586	24,280
Dec. 31..	601,224	410,519	227,504	188,582	120,543
1917 June 30..	605,918	439,752	324,000	177,105	120,309
Dec. 31..	831,371	649,618	461,346	272,192	199,119
1918 June 30..	809,468	645,398	457,000	309,491	232,271
Dec. 31..	1,144,739	712,925	453,000	576,657	444,225
1919 June 30..	1,080,314	705,372	443,000	526,388	374,051
Dec. 31..	1,555,100	951,976	702,000	716,068	358,113

Before discussing the issue of bank notes as a means of adjustment of exchange, it is, however, essential to have a clear understanding of the complicated method whereby notes are issued by the Bank of Japan.[3]

The method of note issue of the Bank of Japan differs from that of the Federal Reserve Banks.[4] The Bank of Japan is required to hold, as a conversion reserve against the issue of notes, gold and silver coins and bullion equivalent to the total amount of the notes issued. In addition to the notes so protected, the Bank of Japan is specially permitted to issue notes to an amount not exceeding 120 million yen, on the security of Government bonds, treasury

[1] "The Oriental Economist," *Economic Year Book*, 1917-1920, pp. 54-55, 57, 87; "The Financial Statement of the Bank of Japan," *The Reference Book for Financial Matters*, The Department of Finance.

[2] Difference between official and actual gold reserve represents funds held in New York.

[3] Hamaoka, *The Central Bank of Japan*, 1902, pp. 232-240; *The League of Nations, Currencies after the War* (London, 1920) p. 29.

[4] Federal Reserve Act, sec. 16.

bills and other high-grade securities or commercial bills. Further, should it be deemed necessary on account of the condition of the money market, additional bank notes, or what are called the emergency notes, may be issued against the deposit of like securities. The emergency issue, however, is controlled entirely by the Finance Minister, who fixes the legal amount of such an issue. A minimum tax rate on all emergency issues is fixed at five per cent by the statute; but the finance minister, if he deem it expedient, may increase the tax rate above five per cent.

Such are the legal requirements for the issue of notes. Examining the above table, we find that at the end of 1918, the amount of note issues was 1,144,339,000 yen. Against this issue, the official gold reserve is listed as 712,925,000 yen. The notes issued against their security,[1] therefore, amounted to 431,394,000 yen. Of this amount, 120,000,000 yen, the legal limit, was tax free. Attention should be directed, however, to the difference between the actual and the official gold reserves, amounting to 259,925,000 yen. The difference represented funds kept in New York, and invested in short term securities. While this method is similar to practice under the gold-exchange standard, there was no known legislation authorizing the Bank of Japan to issue notes on the security of the funds abroad, nor to count them as part of its gold reserve. The act, therefore, must be regarded as arbitrary. It is not without reason that the late Dr. Honda, the distinguished editor of the *Financial and Economic Review,* ex-Finance Minister Dr. Sakatani, Dr. Fukuda, the foremost economist in Japan, and many others repeatedly censured the government policy of note issue.[2]

[1] Of this, 53,000,000 yen represented commercial paper and the remainder government bonds.

[2] The practice of counting the funds abroad as a part of the specie

The indictment by these authorities may be summarized under the five following heads: (1) The specie reserve of the Bank of Japan should legally be kept in the principal office or branches of the Bank of Japan and not abroad; (2) the reserve kept abroad has not the same qualities as the specie reserve kept at home, for if the foreign country in which the funds are kept should institute an embargo on gold exports on the one hand, while at home a financial crisis or other abnormal condition should require gold redemption of the notes on the other hand, the Bank of Japan could not meet the demand; moreover, such practice is in reality an issue of notes based on security and not specie, for according to the official definition, the specie reserve held abroad is, "funds which are kept readily convertible into gold whenever desired;"[1] (3) the present inflation is, in no small degree, due to the irregular method of note issue, which is based on the funds kept abroad, and the abolition of which would automatically bring about contraction which, in turn, would result in lowering prices. Furthermore, if this policy of note issue were pursued, the Bank of Japan could expand the amount of its note issue to the extent that funds are kept in New York and London, without paying a cent of tax to the government. This is in complete defiance of the statutory regulations and removes the check on the amount of note issue which the tax is designed to afford; (4) the Bank of Japan should be free from the interference of the Finance Minister in its proper

reserve of the Bank of Japan began during the Russo-Japanese War (1904-1905) as an emergency measure to fill up the depleted reserve of the Bank of Japan. Dr. Sakatani was at that time a vice minister of finance, and he criticises the continuance of the practice. N. Takizawa, *The Financial History of Japan*, 1912, p. 765; *Daikan* (Outlook), (Tokyo), vol. ii, no. 11, p. 79.

[1] Quoted from Dr. Fukuda, "What is the Remedy? Not Price Fixing, but Currency Contraction," *Taiyo*, Oct., 1918, p. 24.

business, such as note issue or discount policy; and (5) the Bank of Japan, which is owned privately, is wilfully permitted to evade taxes of not less than 10,000,000 yen a year, while small incomes of farmers and wage earners are rigorously scrutinized and levied upon.[1]

From an economic standpoint, whether the reserve of the Bank of Japan be kept at home or abroad is of small importance. Broadly speaking, the practice of keeping reserves at the leading financial center of the world may, in some respects, be an advanced financial method and near the economic ideal.[2] Again, the mere prohibition of note issue based on the funds kept abroad, would not accomplish contraction of the note issues, for, if this were prohibited, the government might bring the funds back to Japan in the form of specie or of securities and continue the issues based on them.[3] At any rate, expansion of the domestic note circulation to correspond to the balance of commodity exports is of doubtful wisdom, while total prohibition is uneconomic. More positive regulations, therefore, must be imposed upon the method of note issue than the mere prohibition of issue based on the funds kept abroad.

The relation between the central banks and the Treasury Department is a vexing question, in particular in Japan. The apparent reason for the demand that the Bank of Japan be rendered independent of the Treasury Department is to free the bank from the influence of the financial policy

[1] *The Financial and Economic Review,* Tokyo. In particular Feb., 1918, p. 3.

[2] H. Parker Willis, "An International Gold Fund," *The Annals*, vol. lxxxiii, Philadelphia, pp. 169-197. *Cf.* the recommendation by the Federal Reserve Board, *The Annual Report of the Federal Reserve Board,* 1918.

[3] It should be noted that before the war of 1914 the funds kept abroad had been replenished from loans floated abroad, but since the war they result from the balance of trade.

of the Finance Minister, who is, it is said, more or less influenced by political considerations. The question is thus more concerned with personalities than with alterations of practice. Speaking strictly, from a technical point of view, however, the function of the Treasury Department is the efficient management of the revenues and expenditures of the State, while the business of the central bank is efficiently to control the financial mechanism of the nation,—the life blood of the whole industry and commerce of the country. The national revenue and expenditure have a close relation to national industry and commerce, but they are a part of the industrial organization. To a casual observer, the function of the central bank may appear to be the simple management of a single bank, but in reality, its task is vast and far surpasses that of the Treasury Department. The entire isolation of the Treasury Department from the central bank may not be a wise arrangement, however, and mutual cooperation is required. The real relationship between them should be one in which the policy of the central bank always prevails over the Treasury Department, instead of the reverse as has been the case.

We may examine finally the advances made to the exchange bank in relation to this note issue. At the end of June, 1917, the total loans of the Bank of Japan were 177,105,000 yen, of which 120,309,000 yen, or 67 per cent. represented loans in foreign bills, mostly an accommodation to one institution, namely, the Yokohama Specie Bank.[1] In December, the loans had increased to nearly 200,000,000 yen, or 73 per cent. of the total loans of the central bank. At the close of the first half of the year 1918, there was a

[1] Among the liabilities shown in the statement of the Yokohama Specie Bank, there is an item called "funds borrowed." These loans are mostly from the Bank of Japan. At the close of 1918 the item "funds borrowed" amounted to 530,104,000 yen.

little increase to 232,371,000 yen, but during the second half of the year, such loans increased greatly, reaching their highest level toward the end of the year. At the close of December, 1918, the figure stood at 444,225,000 yen or 77 per cent of the total loans of the Bank of Japan. Yet the exchange banks were still in need of funds to purchase export bills.

D. *Call loan cperations of the exchange banks*

The governmental attempts to assist the exchange banks to obtain adequate funds were thus unsuccessful, and the situation became particularly acute in the middle of 1918. It was then necessary for the exchange banks themselves to take measures. In consequence, they resorted to the previously unaccustomed method of absorbing comparatively long term call loans [1] from the general money market, and issued certificates of deposit for these call

[1] I. Miki, "Call Money in Japan," *The Street*, New York. Jan. 21, 1920. In Japan, the term "call loan," is extensively used for loans which are to be paid upon notice (usually given on the preceding business day). In practice it includes call money as well as time money, as they are understood in the United States money market. The expression "call money" is used when speaking from the side of the borrower and "call loan" from the side of the lender. There are five kinds of call loans:

1. Over-night call loans (loans for one day, and callable at any time thereafter).
2. Unconditional over-week money (callable after one week).
3. Over-month money (negotiated on any day of the month on condition that the money can be called only on the corresponding business day of the next month).
4. Sight money after a fixed date, or a specified number of days. ("Sight money after a fixed date" is arranged mutually to satisfy parties; for instance, after Feb. 14, 1921. Sometimes this date is placed more than a year in advance. "Sight after specified date" customarily negotiated as of after 30, 60 or 90 days.)
5. Over-year money (dealt in on any day of December [sometimes even in November] and callable on any business day after January 4th of the next year.)

loans. They were thus brought, in the spring of 1918, into direct contact with the commercial banks which concentrated their attention upon the domestic field.

The exchange banks absorbed call loans, not only from the central money markets at Tokyo and Osaka, but also directly from local commercial banks through the branches of the exchange banks. The interest rate on call loans quickly advanced. The local commercial banks thought that it was more profitable for them to invest their funds in call loans than to keep them in the great commercial banks at the financial centers, and consequently began to withdraw their deposits. Sharp competition developed among bankers all over Japan for deposits, and banks endeavored to outbid each other by offering a higher rate of interest on deposits. This competition developed extreme forms. Some banks sent officers every morning to business houses and solicited deposits from door to door, while others gave elaborate dinners to present and prospective customers.[1] Conditions became intolerable. The commercial bankers accused the exchange banks of invading the field of the domestic commercial banks, and at once called a general conference of commercial bankers to discuss the matter. At the conference, it was agreed that call loans made to banks which were not members of the syndicate of the commercial banks must be secured by some tangible security, and not by mere certificates of deposit. The Yokohama Specie Bank and a few other exchange banks, which did not belong to the syndicate, could no longer obtain call loans either from local banks or from the great commercial banks, by the mere issue of certificates of deposit. This measure was equivalent to the prohibition, by the commercial banks, of call loans to the exchange banks; while

[1] M. Uchida, "Evils of Competition for Deposits, and the Remedy," *Osaka Bankers' Magazine*, Osaka, December, 1918, pp. 18-25.

the commercial banks also placed a uniform rate of interest on deposits.[1]

E. *Effect of the failure to adjust exchange*

In the latter half of 1918, the situation of the exchange banks was aggravated by the continued heavy balance of payments in favor of Japan. Foreign exchange bills held by the two exchange banks at the close of the years were in excess of 700,000,000 yen. The balance of trade in favor of Japan in 1918 was estimated at over 500,000,000 yen, to which must be added the invisible balance covering shipping, freightage and insurance premiums aggregating several hundred million yen. The note issues of the Bank of Japan at the close of May, stood at 689,000,000 yen; at the close of August, they had increased to 848,903,613; at the close of October, to 905,978,000 yen, and at the close of December, to 1,144,739,000 yen. In August and September, special exchequer bonds to the amount of 200,000,000 yen had been floated. Meanwhile, exchange rates had also risen. In September 30, 1917, immediately after the gold embargo, they were already $51.25 for 100 yen; but in September 1918, they had risen to $54.875 for 100 yen.[2] The delicate mechanism of the gold points was completely upset, and thereafter fluctuations in exchange became much wider and more violent, being governed wholly by the conditions of supply and demand for bills, without the possibility of relief from gold movements.

The seriousness of the exchange problem and its effects on the money market and general economic conditions in Japan cannot be exaggerated. The wealth of the country increased; but the lower classes of the people suffered

[1] *The Japan Financial and Economic Monthly*, Dec., 1918, p. 3.

[2] *Cf.* appendix for detailed figures.

greatly from the increased cost of living. The popular discontent resulted in the so-called "Rice Riot," which was started by a few score women in a fishing village, but spread very rapidly and caused trouble over the entire country.[1] There was a strike even among the employees of the Treasury Department for an increase in wages. Government officials were alarmed, and at once called conferences[2] to consider the grave economic conditions. At the conference on August 13, 1918, they at once authorized the expenditure of 10,000,000 yen to adjust the price of rice.[3] On the same day the emperor donated 3,000,000 yen toward the relief funds. But they could not immediately formulate further practicable relief measures, and the conference ended with a mere recommendation for the appointment of commissions to investigate the problems. A series of special ordinances were promulgated. The most important were on September 16, 1918, for the organization of a National Economic Commission to investigate economic questions relating to the adjustment of prices and other urgent matters concerning the cost of living.[4] But public sentiment against the economic and financial policies of the government became so intense that the Terauchi ministry finally fell in the latter part of September, 1918. The Special War Time Exchange Commission continued its work, regardless of the fall of the ministry, but it could not institute a practical program to relieve the situation because of the undue importance attached to export trade by the members, and their belief that contraction of currency would necessarily

[1] *Japan Advertiser*, Tokyo, August 4-15, 1918; *Osaka Osaki Shinbun*, Osaka, August 4-15, 1918.

[2] *Tokyo Asahi Shinbun*, August 11, 1918.

[3] *Tokyo Jiji Shinbun*, August 14, 1918.

[4] *The Financial and Economic Annual of Japan*, 1919, appendix, p. 7; *Japan Year Book*, 1919.

result in the decline of Japan's export trade.[1] The bad conditions continued and the tension was relieved only by the sudden news of the Armistice and the subsequent decline of exports in 1919. The immediate effect of the armistice on the exchange problem, however, was psychological. The problem of adjustment continued well into the year 1919.

2. REASONS UNDERLYING THE INABILITY TO ADJUST EXCHANGE

At this stage in our study, we may pause to consider the reasons why the attempts to adjust exchange were not attended with success. Having seen them, we may then turn to the third, or post-armistice period.

A. *Policy of the government*

The defects in the policy pursued by the government lie largely in two directions: (1) undue encouragement of exports, and (2) reckless issue of bank notes. The fundamental theories held by the government officials were at fault, as well as the practice which was pursued. The two ministers of finance who held the portfolio since 1916, may, in effect, be said to have held views approximating those of the mercantilists of the 17th century, as expressed by Mun,[2] "The ordinary means, therefore, to encourage our wealth and treasure is by foreign trade, wherein we must ever

[1] O. Ichirai (a member of the commission and the vice minister of finance) said: "If currency is contracted, we must expect the decrease of exports and the decline of industry in Japan." *Osaka Osahi Shinbun*, August 16, 1918.

It should be noted that the Japanese government selected members of the commission chiefly from official circles, thus including those who were responsible for the past financial policy. Most of the twenty-six members of the commission were officials of the department of finance and the chartered banks. No university professors or prominent financial writers were appointed.

[2] Thomas Mun, *Englands Treasure by Foreign Trade*, 1664, ch. ii, p. 7.

observe this rule, to sell more to strangers yearly than we consume of theirs in value."

Their price theories were likewise mistaken. It was held that the amount of currency in circulation has little to do with prices; that prices do not fall or rise as the result of changes in the amount of currency, for the change in the volume of currency is the effect of, and not the cause of price changes.[1] It was thus held that industrial expansion necessarily brings in its train a proportionate increase in the volume of currency, and that even if this natural expansion of currency were checked by artificial means, circulating credit automatically takes its place, and the same end is achieved. It will be observed that this theory approximates in some respects those expounded by J. L. Laughlin, John A. Hobson and B. M. Anderson, Jr.[2] There has been considerable criticism of the theory in Japan,[3] one

[1] ". . . in the war time economy, such as exists to-day, the expansion of currency does not become a great contributory cause of rising prices, as it does in times of peace. It is more proper, therefore, to conclude that the more important causes of high prices are rather lack of supply of commodities, inadequacy of transportation facilities, and arbitrary manipulation of speculative merchants. . . . The present expansion of note issues is mostly due to the development of our industry and the expansion of foreign trade. . . . In this sense the government will not impede the *healthy* [author's italics] development of industry and trade which the contraction of currency inevitably brings about." Excerpt from the address made by Finance Minister Hon. K. Shoda before the Osaka Bankers' Convention May 1, 1918. See also *Rising Prices and Their Prevention*, July, 1918 (a pamphlet issued by the Department of Finance in defense of the government's financial policy).

[2] Compare also reply of Governor W. P. G. Harding of the Federal Reserve Board to Senator McLean, Chairman, Committee on Banking and Currency, U. S. Senate, *Federal Reserve Bulletin*, August, 1919, pp. 699-702.

[3] Dr. T. Fukuda, "What is the Remedy? Not Price Fixing, but Currency Contraction," *Taiyo*, October, 1918; *Jitsugyo no Nippon*, May 15, 1918; *Osaka Asahi Shinbun*, Editorial of May 3. 1918; *Tokyo Jiji*, May 3, 1918; *Japan Advertiser*, May 4, 1918; *Daikan* (*Outlook*), Tokyo, Japan, vol. ii, no. 11, p. 89; *Journal of Economics*, May, 1920, p. 432.

group of critics remarking that the minister of finance wished to establish his own theory of currency, whether right or wrong. Another group of critics held that the view of the minister of finance was entertained for the sake of expediency, inasmuch as certain classes of the populace always favor inflation. Turning from the theory, one should observe that a corollary was the feeling that contraction of currency would hinder the natural growth of business activity. and that rising prices reflected economic prosperity. The hesitancy of the minister of finance to authorize an increase in the official rate of the Bank of Japan may be noted in this connection.[1] It is no wonder that, guided by such principles, the financial policies of the government inevitably met with disaster, culminating finally in the financial crisis of May, 1920, which was exactly two years after the memorable speech [2] made by the Finance Minister.

Turning to the encouragement of export trade, the Goverment instructed [3] the Japanese exchange banks to purchase export dollar bills at a much lower rate than the current rate of exchange. In 1918 New York exchange went to a new high level. For some time previous, the rate had been $54.75 for 100 yen, but the Japanese exchange banks had bought export bills at a lower rate, while foreign banks in Japan quoted the current rate. There was thus a spread of nearly 4 yen ($2.00) between

[1] The rates of the Bank are made only with the sanction of the Finance Minister. Dr. Hamaoka strongly advocated that this power should rest in the governors and the directors of the Bank. *The Bank of Japan*, 1902, pp. 108-114.

[2] He said, among other things: "Our industry is developing on a sound basis, and the outlook for further increase in foreign trade is brighter." *Cf. Osaka Asahi Shinbun*, May 3, 1918.

[3] *Industrial Japan*, Tokyo, November 15, 1918, p. 36.

the rates of the two sets of institutions. The result was that importers took their bills to foreign banks, while exporters took their bills to Japanese exchange banks. Another effect of the excessive expansion of export trade was the increased foreign demand for commodities, with the result that a decreased amount was available for home consumption, and that there was increased demand and higher prices, with consequent discontent among the populace in Japan. It also tended to place a strain upon the exchange banks.

In order to enable the exchange banks to purchase the export bills which were offered, the government resorted to the issue of bank notes secured by export bills and funds which had accumulated in New York. Bills of this description lack one of the fundamental requisites, namely: elasticity. The general theory with respect to the matter has been well expressed as follows: "As long as reserve balances are created and circulation is issued only against self-liquidating paper, which represents things in course of production, and as long as this process is kept within a safe relation to gold, there may be more or less acute banking expansion, but there would not be any cause to call it inflation. It is when bank loans, reserve balances or circulation are being created against things that do not represent any tangible value, and gold reserves are disregarded that we face inflation in its classic form." [1]

Further efforts should have been made instead to fund the floating debt owing by foreign nations to Japan as a result of Japanese export trade, into a long term debt, using the surplus Japanese funds for this purpose. In short, this balance in favor of Japan should have been converted from

[1] P. M. Warburg, "Inflation and High Prices," *Proceedings of the Academy of Political Science in the City of New York*. vol. ix, no. 1, p. 119.

commercial financing obligations into investment obligations, and have been removed from the sphere of possible effects upon the domestic financial and price situation.

B. *Lack of a discount market*

The situation was aggravated by the lack of a well developed discount market in Japan. In particular, there was absolute lack of coordination between the exchange banks and the commercial banks. Thus there was no utilization, for the purpose of foreign trade financing, of the surplus current funds of the community. The peculiar position occupied by the Bank of Japan also played its part. Instead of serving in actual fact as a central bank, it served rather as a means of support of the exchange banks alone, and did not serve as a tie whereby domestic and foreign trade financing were coordinated. It should be noted that only a minor part of the Bank of Japan's deposits are derived from the ordinary commercial banks. Thus there was a plethora of funds in the commercial banks at the same time that the exchange banks were sorely pressed for funds. During the year 1918, the total deposits of the commercial banks increased 1,400,000,000 yen, or 43 per cent, and the ratio of loans to deposits declined from 93 per cent at the close of 1917, to 89 per cent at the close of 1918.

In view of the peculiar position occupied by the Bank of Japan, the official rate lost its significance. It did not lead the market,—in fact could not. Thus we find that while the rate tended upward in the United States and Great Britain as the war progressed, in Japan the rate actually decreased instead, from 7.3 per cent in 1914 to 5.1 per cent. It thus followed the domestic market rates. The lowering occurred twice during the year 1916, commencing in May, as the market rate was too far below the official rate.

"These repeated lowerings had the effect simply of reducing the margin that had separated the rate of the central bank and the current market rate, which had been at a low level from the preceding year."[1] In March, 1917, the official rate was further lowered to 5.1 per cent. It continued at this level until September, 1918, in spite of the facts that during this period the financial needs of the exchange banks reached their highest peak. Similarly, in the early months of 1920, prior to the panic in May, the general market rate rose as money became tight, and a spread of from 1.82 to 2.92 per cent developed between the official and market rates. The discount rate policy of the Bank of Japan has been characterized in the following words: "the raising or lowering of the discount rate of the central bank was not effected in relation to market conditions, but more or less on the Bank of Japan's own account, to float its own bonds[2] on favorable terms."[3] As long as the official rate is lower, it should be noted, the exchange banks can certainly obtain funds from the central bank on easy terms. It would appear, however, that, aside from the reluctance of the minister of finance to raise the official rate, the official rate did follow the market rate, although with a considerable lag.

It will be evident from the above that the financing situation with respect to foreign trade is part and parcel of the wider problem of the general financial situation.

C. *Remedies proposed*

In order to remedy the financial conditions, many proposals have been made. The prices of commodities

[1] *The Seventeenth Financial and Economic Annual of Japan*, p. 5.

[2] Special exchequer bonds, government railway notes and other industrial bonds for government enterprises.

[3] *Japan Financial and Economic Monthly*, Feb., 1918. p. 33.

continued to rise even after the armistice, only to be arrested in the financial panic of May, 1920, due primarily to the continuance of the mistaken financial policy by the government.[1] As a result pages of current publications, from the second half of 1918 until toward the end of the following year, were much devoted to discussions of the price problem, particularly of its social effects. As a rule, the government officials and some writers who, in the main, supported the financial policy of the government, emphasized the commodity side of the cause of high prices, and insisted that it was a world-wide phenomenon against which human effort could hardly fight without causing injury to many peoples.[2] The leading economists [3] and publicists, especially the professors in the private universities, while not neglecting the usefulness of the abolition of the tariff imposed upon foreign rice, the prohibition of exports of certain food products, and the regulation of speculation, as remedies for high prices, were unanimous in their opinion that inflation was by far the major cause of high prices.

These economists first directed their attention to refutation of the arguments expounded by the government offi-

[1] Will Goettling, "Japan's Business World in Reaction," *The Trans-Pacific*, vol. iii, July, 1920.

[2] "The Economic Thought of Finance Minister K. Shoda," in *Jitsugyo no Nippon*, Tokyo, May 5, 1918; "Speeches of Finance Minister K. Takahashi," *Osaka Bankers' Magazine*, August, 1919; *Japan Financial and Economic Monthly*, November, 1918, August, 1919; *cf.* "Premier Hara's Economic Ideas," *Taiyo*, vol. xxv, no. 13, p. 22.

[3] Dr. T. Fukuda, of Tokyo Commercial College, *Taiyo*, Oct., 1918; Dr. K. Horie, of Keio University, *Taiyo*, 1918-1919; Dr. U. Kobayashi, "High Prices and Currency Contraction," *Taiyo*, September, 1919, p. 2, *Daikan*, October, 1919; Dr. B. Hattori, of Waseda University, "High Prices, Cause and Remedy," *Taiyo*, September, 1919, p. 54; Dr. K. Toda, of Kyoto Imperial University, *Keizai Ronso*, vol. ix, no. 4; Dr. M. Kambe, of Kyoto Imperial University; Dr. S. Kawazu, "The Remedy for High Prices," *Taiyo*, October, 1918.

cials. One [1] of the economists argued that to attribute high prices to a world-wide movement presupposed an existence of certain relationships between Japan and the other countries; and to attribute high prices to them without tracing their cause and effect, was too vague. China's rise in prices during the war, for instance, was only 20 per cent. If high prices in Japan were attributable to the so-called "world-wide phenomenon," its relationships may be traced in the following manner: the lack of supply of commodities and the rise of prices due to inflation in the belligerent countries increased Japanese exports to those countries and others; and this, in turn, brought about lack of commodities in Japan for home consumption and raised the prices thereof. If this is the case, it may explain the high price of a particular commodity; but it is insufficient to explain the general rise in the price level. The weakness of this line of argument is the omission of interdependent forces in price making. An increasing prosperity in one trade pushes up prices in remoter branches of trade, and the rise of prices is carried over other industriess.[2]

The second mode of refutation was directed against the theory that high prices are the result of industrial prosperity, and that the lowering of prices could not be accomplished without restraining the industrial expansion. So-called prosperity, argued one of the economists, was nothing but an increase in the purchasing power of the public, and prices rose as a result of this increase; the enormous increase of Japanese exports and the consequent issue of notes based on gold imported and funds accumulated in New York, increased the purchasing power of the community, and caused the general level of prices to rise; in consequence, industrial prosperity was a cause of high prices and was nothing but

[1] U. Kobayashi.

[2] W. C. Mitchell, *Business Cycles*, 1913, p. 15.

inflation of the currency. Here again, the economist missed one of the links in price causation. It is more correct to say that prosperity in Japan was first ushered in by the rise of prices caused by growing demand. But the rise of prices was accelerated doubly or trebly by the rather reckless issue of notes by the Japanese government.

The third line of refutation was directed against the theory that high prices are due to the lack of supply on the one hand and the increase of demand on the other. The economist contended that they were emphasized to the point of absurdity. The increase of demand for rice, for instance, was only 20 per cent., while the supply of rice was about normal, yet the price of rice rose 220 per cent. He fell into the same error as in the first case cited.

Finally, against the contention that artificial restriction upon the natural expansion of currency is rendered ineffective by an automatic increase of the use of circulating credit, the economists were unanimous in their argument that the inflation of currency brings in its train the increase of circulating credit; and, vice versa, the contraction of currency results also in the contraction of circulating credit. Furthermore, they contended also that the use of bank checks in Japan is still confined largely to remittances, and in consequence it may not have the great influence upon prices, which it does in England and the United States.

From these reasons, the economists concluded that high prices in Japan are from six to seven parts out of ten, due to inflation of the currency; and they sought the effective remedy in contraction of the currency. The principal proposals they made were: (1) the curtailment of credit by raising the official bank rate, and by imposing a high tax on note issues; (2) absorption of surplus capital by increasing the rate of interest for postal savings, receiving interest-bearing deposits at the Bank of Japan, and floating bonds;

and (3) the use of capital thus raised, aside from advances to the exchange banks, in foreign investment.[1]

They contended that the raising of the bank rate would react immediately upon the market rate and curb speculation. The economists warned the Finance Minister, who was reluctant to raise the official rate, that if the present inflation was continued, sooner or later a financial panic would be inevitable, and a greater calamity would befall Japan. Against the contention of the Finance Minister that five-sixths of the populace of Japan were benefited by high prices, and in consequence were not in favor of raising the bank rate, the economists maintained that the situation was just the opposite, five-sixths being the sufferers. Sarcastically, Baron Sakatani remarked that if the contention of the government officials was true, the Department of Finance itself would not have a strike of its own subordinate officials because of the high cost of living.[2]

The economists were unanimous in their condemnation of the government method of floating bonds. They charged that the government did not float bonds for the purpose of contraction, but for its own financial needs; that the greater part of the bonds were appropriated for either war expenditures, or for the payment of munitions shipped to the Allies. In consequence, the floating of bonds not only failed to absorb the inflated purchasing power of the community, but, in fact, such bond issues contributed materially to further the inflation by loans on them by the Bank of Japan. On the other hand, they urged the prime importance of foreign investment. Dr. Toda [3] argued that

[1] The author himself classifies these proposals arbitrarily into three groups above outlined.

[2] *Daikan*, vol. ii, no. 11, p. 76, Dr. M. Kambe, "First Do away with the False Notion," *Jitsugyo no Nippon*, Oct. 15, 1918, p. 27.

[3] "Urgency of Currency Contraction," *Keizai Ronso*, The Kyoto Imperial University, vol. ix, no. 4, p. 568.

it was not a time to consider a contingent loss from the difference in the rate of interest or from the depreciation of the invested principal.

The discussions of these economists are, in the main, correct, although the arguments, as a whole, were rather abstract, particularly in their constructive program. In consequence, they failed to point out precisely what the Finance Minister was desirous of knowing, as may be seen from his speech, in which he said in part that, "serious consideration is needed to ascertain precisely what degree of expansion of note issues causes inflation and becomes a real cause of high prices or, in other words, within what degree the expansion of note issues should properly be kept in order not to cause inflation." [1] So far as the present writer is aware, the economists did not discuss in detail the complex relationships concerned in price causation, and seem to have overlooked the importance of "alternative cost" in this connection. They did not explain in detail the nature of circulating credit and its relation to money. They failed to consider the real function of the commercial banking.[2] Furthermore, while they emphasized the importance of raising the official rate as an effective method of contraction, they did not make clear the influence of the facts that nearly three-fourths of the loans of the Bank of Japan are loans to one single exchange bank; and that Japan lacks a discount market. The market rate is therefore more independent than might at first be supposed, and the leadership assumed by the central bank in the money market with respect to currency contraction, lies more largely in indirect

[1] K. Shoda, *Address before the Osaka Bankers' Convention*, May 1, 1918.

[2] W. H. Steiner, *Some Aspects of Banking Theory*, New York, 1920, chs. iii and iv; H. G. Moulton, "Commercial Banking and Capital Formation," *The Journal of Political Economy*, 1918, pp. 484, 638.

means, than is its power to issue bonds bearing a sufficiently high rate of interest, etc. The thesis of Dr. Fukuda [1] was particularly faulty in this respect, being too abstract in its treatment. In consequence, it met undeserved attacks from a supporter of the government policy who fortified his argument with elaborate statistics.[2]

In spite of the faults of the economists' arguments, the explanation of the failure of the government officials to heed these useful recommendations of the economists must be sought elsewhere. It should be noted that public opinion in Japan has no influence over the policy of the government as it does in the United States. The fact was well expressed by the late ex-premier Terauchi who, speaking of his own cabinet, said that it " is the choice of the emperor, and any person among his subjects venturing to criticise his ministry is acting against the wish of the emperor." [3] Furthermore, the Japanese public seemed less critical. A writer in an economic journal expressed the opinion that whether the expansion of note issues or of industry was the cause or effect of high prices was beyond the scope of his inquiry.[4] The same perplexity was observed among other members of the intellectual class; [5] while the economists in general were more or less regarded as mere theorists, notwithstanding the fact that what they expressed was nearer to the truth.

[1] Dr. T. Fukuda, "What is the Remedy? Not Price Fixing but Currency Contraction," *Taiyo*, Oct., 1918.

[2] *Keizai Ronso* (*Economic Discussion*), vol. viii, no. 3.

[3] *The New York Times*, October 22, 1919, editorial.

[4] *Kokumin Keizai Zasshi* (*National Economic Magazine*), vol. xxvi, no. 4, p. 125.

[5] *Taiyo*, September, 1918, p. 70; November, 1919, p. 19.

3 THIRD PERIOD (NOVEMBER, 1918—JUNE, 1919)

We may now turn our attention to the third of the three periods into which we have divided Japanese foreign trade financing since 1914. Our previous survey indicated that, by the signing of the armistice, no effective means of grappling with these financial problems had been devised. Since the armistice, however, there has been a new development. This is the introduction of the bankers' acceptance in Japan, which constitutes the outstanding feature of the period. This event is exceedingly important in that it has laid the foundation for the beginning of a real discount market in Japan, which will serve to put the methods in use there on a parity with those employed in foreign trade financing in other leading nations.

A. *Introduction of bankers' acceptances*

As a result of the armistice in November, 1918, Japanese exports during the first half of 1919 declined somewhat in physical volume, but had a high valuation, so that the total measured in yen did not differ greatly from the figure for the first six months of 1918. Imports, however, exceeded exports fully 200 million yen. The intangible factors in the balance of payments, however, such as interest on foreign investments, shipping charges, etc., in favor of Japan were more than sufficient to offset the adverse position of the balance of trade. In consequence, little relief was afforded to the exchange banks. In June 30, 1919, loans to them by the Bank of Japan were as high as 350 million yen. On the other hand, the commercial banks began to realize the weakness of the Japanese banking system, with the lack of coordination and co-operation between their own institutions and the exchange banks and the Bank of Japan. This was urged also by Mr. J. Inouye,[1] who was then pre-

[1] *Collection of Speeches by I. Iuouye,* Bank of Japan. 1920.

sident of the Yohohama Specie Bank. Many conferences of leading bankers and financiers were held in an effort to consider the relations which should exist between the commercial banks and the exchange banks. These conferences developed the idea that the principal need was the introduction of a discount system in Japan. Accordingly, investigations of the discount system were made by the Bank of Japan and others, and the experience of the United States and leading European countries was accordingly considered. Finally in May 22, 1919, the Bank of Japan announced that it would commence to rediscount bankers' acceptances. The declaration of the Bank of Japan was as follows: "In order to improve the financing of foreign trade, the Bank of Japan will rediscount bankers' acceptances based on actual commercial transactions in foreign trade, and will grant to such bills the same preferential discount rate as is granted to trade acceptances, which is the lowest of the official discount rates." This declaration was followed by a long explanation of the benefits resulting from the use of bankers' acceptances.[1] The rate as that time was 6.57 per cent, as compared with 6.94 per cent on ordinary bills. While no maturity was stated, owing to the customary foreign trade practices, the maturity of drafts in most cases did not exceed three months.

In addition, the Bank of Japan recommended that commercial banks should invest their funds in short term bankers' acceptances, which would serve the twofold purpose of building up secondary reserves at the same time that they were aiding in foreign trade financing. In an effort to further the development of the use of yen bills, their use for payments in China or other adjacent Asiatic countries for goods imported was insisted upon, and Japan-

[1] *Tokyo Bankers' Magazine*, June, 1919; *Osaka Bankers' Magazine*, June, 1919.

ese merchants and bank agencies in the United States were also instructed to endeavor to employ yen drafts for payment of Japanese imports.

The drawing of yen acceptances in connection with Japanese exports, however, was not so favorable as it was in the case of imports. Consequently the Bank of Japan, on August 4, 1919, announced another method of relieving the situation.[1] The Japanese exchange bank which purchased a bill of exchange, usually in dollars on a New York bank for exports to the United States, and which sent the documentary bill to New York for acceptance and collection, was to be permitted to draw a finance bill on the Bank of Japan in yen, not to exceed the exchange value of the documentary draft, and to have a maturity of not more than 30 to 90 days. The deposit of another copy of the draft in the Bank of Japan was also required. The exchange bank could then sell the finance bill in the open market if it needed funds. The finance bill, when purchased by commercial banks, brokers, or other buyers, was eligible for rediscount at the Bank of Japan, and if the buyer so desired, it was stamped on the face by the Bank of Japan as notice of its eligibility for rediscount and was called a "Bank of Japan stamped bill." It is to be noted that this device has within it several elements of danger. Thus the Federal Reserve Board has ruled that while a national bank may accept a draft drawn upon it which is secured by a documentary draft drawn by the same drawer upon a foreign buyer, no bank which has purchased a foreign documentary draft may refinance itself by drawing a draft on a member bank secured by the documentary draft.[2]

[1] *Osaka Bankers' Magazine*, September, 1919, p. 253.

[2] *Federal Reserve Bulletin*, June, 1920, p. 610.

B. *Bankers acceptance market in Japan*

The bank acceptance market in Japan consists at present of a few bill broking banks and commercial banks which both accept and discount. There are neither acceptance houses nor discount corporations as they are found in London, although they may eventually be established in Japan. Although it is more than two years since the bankers acceptance was introduced into Japan, our knowledge of the progress that has been made is very meager. The only figures available at present are contained in a statement made by the president of the Bank of Japan in the course of an address, in which he said that the amount of bank acceptance bills purchased in the open market by the commercial banks and bill-broking firms and actually held by them at the end of January, 1920, was roughly 44 million yen, excluding the Bank of Japan's stamped bills.[1]

As to the cause of the apparent lack of any campaign for the greater use of bankers' acceptances in Japan, a well known Japanese banker told the author personally that certain officials in the Bank of Japan do not favor the introduction of bank acceptances for many reasons. One is that Japanese financial conditions, with the poor accounting system and the consequent difficulty in obtaining credit information, are not well fitted for such an introduction. Be that as it may, the Bank of Japan never made any statement in regard to the progress of the bankers' acceptance in Japan, either in its own financial statements or in any other publications, while the financial statements of commercial banks do not show the bankers' acceptances as a separate item, but include them under the item called "payments guaranteed", which consists of a guaranty of payment of certain checks, letters of credit and other liabilities besides

[1] *Tokyo Bankers' Magazine*, February, 1920, p. 189.

bankers' acceptances. In consequence, it is impossible to obtain any definite information as to the progress of bankers' acceptances in Japan.

Some years ago, the president of one of the government commercial colleges expressed the view that Japan should not hastily introduce bankers' acceptances.[1] Against this view, it should be said that the introduction of the system and a vigorous campaign for its use would certainly aid in bringing about conditions favorable to the adoption of bankers' acceptances. It is not too much to say that without having standardized commercial paper in the form of bankers' acceptances, efficient financing of Japanese foreign trade is well nigh impossible.

C. *Problems in the development of the market*

There is a natural tendency on the part of an importer to favor the use of his own currency in connection with the financing of the goods which he imports. That is to say, he prefers to make an arrangement with his local bank to open the credit, and have this credit in terms of his own currency. This will be the case except when the currency of the importer's country is at a heavy discount in the exporter's country, in which case, either the exporter's currency or the currency of some other country may be employed. There will thus be a tendency toward the use of yen bills for Japanese imports from the United States and for the use of dollar bills for Japanese exports to the United States. The reasons for this method of financing are obvious. By purchasing foreign goods in foreign currencies the element of the risk of exchange would be added, and this would involve the necessity of adding to the margin of profit another item which would cover this risk. The more uncertain the foreign exchanges, the larger must be the

[1] Z. Sano and T. Takazaki, *Banking*, Tokyo, 1916, p. 298.

insurance premium. Again, the importer must pay an extra commission to the foreign bankers, all of which adds to the cost of the goods. Finally, after the bill had been accepted by the credit-issuing bank, if the import bill of exchange was stated in a foreign currency it could not be sold in the domestic open discount market as readily as if stated in the home currency.

The factor which hinders the use of yen and dollar bills of exchange in the financing of American-Japanese trade in the past is primarily the inadequate financial organization in both the United States and Japan and the deficient banking relationships between them and with other countries. There is even at the present time no well developed yen exchange market in New York, nor a market for dollar bills in Tokyo, both of which are a necessary foundation for the development of direct exchange operations. The lack of these financial structures in the past in both America and in Japan, made it necessary to finance much of the trade in terms of the pound sterling.

The strength of sterling, which has been through many storms, but has weathered them all, and still today enjoys first place as a world currency in international finance, is largely attributable to the efficient British financial organization at home and the superior facilities afforded by her banking connections throughout the world. The crucial point, therefore, in the problem of developing the market for yen and dollar drafts in the financing of both American-Japanese trade and trade between them and other countries, is to organize an efficient financial system in both and to establish closer banking relationships between them and other countries along the lines of the British system. That is to say, there must be an open discount market in both Japan and in America, with sufficient facilities for handling and disposing of any amount of such paper that may be

offered. There must be also close banking relationships between them and other countries in order to increase the marketability of bills drawn in yen or dollars.

This raises, at once, many important financial and banking problems on both sides of the Pacific. Institutions which make up the component factors of the discount market such as the accepting banks, various purchasers and sellers of acceptances, the central rediscounting bank, discount corporations and brokers, etc. have to be developed. Again, the American and Japanese banking systems in reference to international finance must be brought into more close relationship, as well as their respective banking connections with other countries. That is to say, there should be Japanese bank agencies or branches in New York and similarly American branch banks in Japan and also joint American-Japanese banking institutions to facilitate the disposition of yen and dollar bills of exchange. Moreover, the new financial order to be constructive must be well adjusted to the existing system. All this requires a great deal of labor, time and foresight.

The establishment of the discount market in the United States and Japan, during and after the Great War, as has been already stated, survived the initial difficulties. The next step is to develop it. Many obstacles lie in the way of its growth and development, and the removal of these obstacles requires the fullest measure of cooperation from every one concerned. The first requisite for the development of the market is well under way. The remaining problem is then to improve banking relationships between the two countries. To this phase we shall now direct our attention.

CHAPTER IV

Banking Relations Between the United States and Japan

I. PRESENT STATUS OF BANKING RELATIONS

In the preceding chapter, the importance of established banking relations in international finance has been emphasized; it has been shown that the full development of the discount market on both sides of the Pacific and the consequent operation of direct exchange between them can not be had without closer banking relations between the United States and Japan, and incidentally the present rather unsatisfactory condition has been mentioned. In this chapter we shall make a critical inquiry into the existing status of banking relations and obstacles to possible improvement.

The usual methods of extending banking facilities into a foreign field are: (1) the opening of correspondence relations, (2) the creation of agencies, (3) the direct establishment of branches by a great bank with its own resources, and (4) the creation of a special bank which has a more or less independent existence. Which method of representation is preferable depends upon the commercial relations between the two nations and the political and economic conditions of the place in which the bank is to be established. "Chercher à bien connaître la situation politique et économique du pays, et à tâcher d'approprier par des procédés ad hoc le commerce de banque à cette situation." [1]

[1] Georges Diouritch, *L'Expansion des Banques Allemandes à L'Étranger,* Paris (1909), p. 252.

Representation by correspondents is chiefly employed where business relations are not close, although a distinguished British banker [1] advocated greater representation by this means as an after-war-measure, in order to eliminate the potential international banking competition which the establishment of branches is likely to cause. It is the easiest and most inexpensive mode of banking representation, and usually is employed wherever it is deemed necessary. In many cases it precedes instead of follows the business. Many American banks are represented in Japan by correspondents. Several Japanese banks are also represented in the United States by correspondents. The Bank of Taiwan alone has more than fifteen American correspondents,[2] although it has its own agency in New York City. In 1917 the Federal Reserve Bank of New York entered into an agreement with the Bank of Japan. No positive step, however, has so far been taken to promote mutual banking relationships, except a regular telegraphic exchange of certain financial data.

Representation by agency is, as a rule, most commonly employed when trade and financial relations are not so great as to call for a branch, on the one hand, and when the place in which the correspondent is to be established has a fairly well developed banking system, on the other hand. Most of the Japanese banks' representatives in New York, San Francisco and Seattle have the status of agencies. There are the agencies of the Yokohama Specie Bank, the Bank of Taiwan, the Bank of Chosen, the Sumitomo Bank and the Mitsubishi Bank. Of these, the agency of the Yokohama Specie Bank in New York City is the oldest, having

[1] Sir Edward Holden, "Maintaining London as the World's Financial Center," *The Bankers' Magazine*, New York, Nov., 1918.

[2] *History of the Bank of Taiwan* (1919), p. 376.

been established in 1880,[1] while the agencies of the other banks were established either during or after the Great War.

Representation by the establishment of direct branches is, in general, more common in a country where political and social conditions are stable, where the economic status is well advanced and where the commercial and economic relations between such countries and others are especially close. The agency and the branch are more or less similar, the difference being in the legal status of the two. Two American banks each have two branches in Japan. One is the International Banking Corporation, which established its branches in September, 1902, at Yokohama, and in October, 1904, at Kobe.[2] The other bank is the Park Union Foreign Banking Corporation,[3] which established its branches in 1919 at Tokyo and Yokohama. The International Banking Corporation has also several branches in China and India. It is empowered to transact a variety of business besides commercial banking proper; it may engage in investment banking and trust business, and may become a partner in industrial enterprises. It is the strongest American bank in the Orient, its entire stock being controlled by the National City Bank of New York. Besides these two American banks there are two other American banks which have branches in China, but not in Japan. These are the Asia Banking Cor-

[1] T. Yokoi, *Commercial History of Japan since 1868*, Tokyo (1900), p. 208.

[2] *Ginko Binran* (*Handbook of Banks*), Finance Department, Tokyo, 1911.

[3] The capital of the corporation is $4,000,000. It was established in 1919 under the control of the National Park Bank of New York and the Union Bank of Canada.

poration[1] and the Equitable Eastern Banking Corporation,[2] both of which were established since the armistice.

The only Japanese branch in the United States is the branch bank of the Yokohama Specie Bank in San Francisco, which was established in June, 1886,[3] before the present banking law of the State of California, which prohibits the establishment of branches of foreign banks, was enacted.

Representation by the creation of special banks is more adaptable to a less advanced country where freedom of action in banking business is required, rather than specialization. Thus, the characteristic feature of special banks is the manifold function of such banks. They mostly combine ordinary commercial banking, long term investment, and, in not a few cases, note issue. The bank itself undertakes industrial enterprises. The special bank may be organized either under the laws of the home country, or of the country in which the bank is to be represented. The shareholders may be a group of individuals or of banking firms, and again the group may consist of men of the same or of different nationalities, with a growing tendency towards the latter. There is no special bank established by either Japanese in America or Americans in Japan nor any under joint auspices.

In 1919, the Sumitomo Bank of Seattle was incorporated under the laws of the State of Washington, with three Americans among its five directors, This bank, however, would be more correctly called a branch of the Sumitomo Bank of Osaka than a joint enterprise, for the reason that

[1] The Asia Banking Corporation was established in 1918 with a capital of $4,000,000 by the Guaranty Trust Company of New York.

[2] The Equitable Eastern Banking Corporation was established in January, 1921, with a capital of $2,000,000 by the Equitable Trust Company of New York and other American banks.

[3] T. Yokoi, *Commercial History of Japan*, Tokyo, 1900.

Americans were included in its directorate merely to comply with the rigid banking laws of the State of Washington.

2. CRITICAL ESTIMATE OF PRESENT METHODS

A. *The war and its effect on banking relations*

From the foregoing survey of banking relations between the United States and Japan, it is seen that their banking connections are of very recent development. Before the Great War, the only Japanese bank which had direct representation in the United States was the Yokohama Specie Bank, having one branch in San Francvisco and one agency in New York City; while the only American banks in Japan were the two branches of the International Banking Corporation at Yokohama and Kobé. Since the war, four more Japanese banks have opened agencies in the city of New York, while one American bank has established branches in Yokohama and Tokyo.

Banking institutions are a product of commerce and general economic conditions, and, as a rule, follow their development, unless artificially encouraged by the government with special grants of privileges. The principal causes underlying the hitherto small banking facilities between the United States and Japan need but little explanation. They were: (1) the relative unimportance to the United States of her foreign trade in comparison with her large domestic trade; (2) the absence of exports of American capital before the war; (3) the decentralized banking system of the United States, with its absence of bankers' acceptances and a discount market until the passage of the Federal Reserve Act in 1913; and (4) the restrictive state and federal banking laws of the United States, which virtually prohibited the establishment of foreign banks in the United States. A more or less similar condition prevailed in Japan with the possible exception of (4). Japan was a debtor country with

no natural resources to develop; she had no open discount market until the summer of 1919; and her foreign trade was insignificant in comparison with that of the United States and the leading European nations.

But the Great War brought about entirely new economic and financial relations between the United States and Japan. The change that has been brought about in the financial position of the city of New York needs no explanation. The Federal Reserve Banking System has replaced the former disorganized system. A discount market has been created, with bankers' acceptances, and an effort made to develop the dollar exchange. More than fifteen billions of dollars have also been loaned by the United States, principally to Europe, while bankers and financiers in Japan are evidently aspiring to make the city of Tokyo the central money market in the Orient [1] and to establish a discount market on a modern basis. Japan's economic position has also been vastly strengthened since the opening of the war. Added to this is the recent development of American-Japanese financial rapprochement in reference to the industrialization of China, which requires billions of American capital.

B. *Present defects*

Banking relations between the United States and Japan must be adapted to these changed economic and commercial relations. The agency of the Yokohama Specie Bank in New York was established fully forty years ago, yet it remains on the same basis today. The direct representatives established by Japanese banks in the city of New York and elsewhere since the war, are also all of the status

[1] J. Inouye (President of the Bank of Japan), "Japan as the Financial Center of the Orient," *Japan Financial and Economic Monthly*, March, 1918.

of agencies. This state of affairs does not prove that the American-Japanese banking relations are best served by agencies. On the contrary, it is largely due to the restrictive nature of the state banking laws of the United States against foreign banks. The obvious drawback of the agency meeting the growing financial relations, is its inability to discount ordinary commercial paper and to receive deposits subject to check, thus limiting the resources as well as the business transacted. In order to overcome these disadvantages and to meet the new requirements, the Sumitomo Bank of Seattle was established in 1919, after much difficulty, under the laws of the State of Washington.

The development of the discount market in Japan involves many factors, such as acceptance houses or discount corporations; but no positive step is being taken to establish those institutions to foster the development of the dollar market in Japan or the yen market in the United States. Among the many causes which deterred the development of the discount market in Japan, the most important was lack of capital. The war resulted in apparent prosperity in Japan, but the need of capital for growing industries is still great. Added to this was the panic of May, 1920, which wiped out the greater part of Japanese war profits. The following statement, made by an English authority on Eastern finance, is still true: "The extent to which the resources of Japanese domestic banks are drawn on for the financing of the internal trade of the country is such that several important European and American branch banks find ample scope for financial operations in connection with the foreign trade of Japan." [1] The establishment of more American banks in Japan, particularly in cooperation with the Japanese, will certainly hasten better banking relationships.

[1] W. F. Spalding, *Eastern Exchange, Currency and Finance*, London (1917), p. 154.

The Oriental countries, especially the Chinese Republic, require a vast amount of American capital to modernize them by means of railroads and telegraphs. Yet there are practically no American banks in the Orient established for this particular purpose, either jointly by American bankers, or under American-Japanese auspices. It would be advantageous to Americans to avail themselves of the knowledge and experience of Japanese who are more or less familiar with Oriental matters and who are, above all, anxious to cooperate with American bankers.

Japanese merchants and farmers in the State of California are in pressing need of some sort of better financial facilities. These Japanese residents have great difficulty in obtaining financial accommodation from American state or national banks because of the constant protests of anti-Japanese organizations against the extension of accommodation to Japanese residents by American banks. There are one or two small Japanese commercial banks in California organized under State laws, but they are wholly inadequate to meet the growing needs of the Japanese merchants and farmers. The value of the annual product of Japanese farmers alone in the State of California reaches over one hundred million dollars, and not a few Japanese farmers in the seeding or harvesting season borrow funds from the banks ranging from $100,000 to $200,000 in one transaction. One of the suggestions of Mr. Chiba, the chairman of the Japanese Agricultural Association in California, for meeting the needs of Japanese residents, is that the agencies of Japanese banks in San Francisco should make special loans to the Japanese until there is established a banking institution sufficiently large to finance adequately the business of Japanese residents in the State of California.[1]

[1] T. Chiba, *The Anti-Japanese Movement in California and the Financial Problems of Japanese Residents in the State* (a pamphlet), San Francisco, 1920.

One of the most obvious barriers to the accomplishment of this and other ends, and to the improvement of banking relations between the United States and Japan, is the rather restrictive banking legislation in the United States. Early in 1918 there was a project among Japanese and American bankers to establish a jointly capitalized bank under the laws of the State of California. The purpose of this joint undertaking was to promote the financing of American-Japanese trade as well as to assist the financing of domestic trade, in particular that of Japanese residents in California. The promoters, however, instantly met legislative difficulty in the way of such an undertaking. The banking laws of the State of California require that bank directors be citizens of the United States and the majority of them residents of the state; they also prohibit interlocking directorates, as do most of the state banking laws in the United States. The promoters of the American-Japanese joint bank then appealed to the State Legislature to amend the restrictive laws. Happily the objectionable part of the laws was removed in the Amendment of May, 1919.[1] But on the other hand, owing to some difficulties among the Japanese bankers, the promoters failed to carry out the plan. While nothing can be accomplished in a day, and it is necessary to wait for the slow process of development, it is foolish to allow the matter to drift. Conscious effort will certainly facilitate growth and improvement. Consequently, it is the purpose of this analysis to examine the banking laws of Japan and of the United States and to promote cooperation between these countries.

[1] *Osaka Bankers' Magazine*, Osaka, June, 1919, p. 81; *California Banking Law*, 1919; *The Japanese American* (Daily paper), San Francisco, June 3, 1919.

3. BANKING LEGISLATION

A. *Japanese banking laws*

Inherited human nature is constant. Yet human personality or behavior, which is the product of nurture, is susceptible to modification.[1] All human institutions—political, social or economic—through all the ages are the collective expression of this dynamic nurture of the human race.[2] The organic conception of the state[3] of Japanese polity is but an aggregate reflection of her nurture, and this political philosophy, which is absolute in dealing with socio-economic affairs, was a no less important factor in moulding her general economic institutions, one of which is banking legislation. According to this theory, the state is primarily a unit and only secondarily an aggregate. In consequence, the characteristic feature of the Japanese banking laws is the liberality of the act. The Japanese do not regard banking as a quasipublic business. Instead, the banking corporation is treated as a kind of ordinary business corporation. Hence there is no clear-cut distinction between the moneyed and other business corporations, as one finds in most of the state laws of the United States. The second marked feature is the brevity of provisions. These are expressed laconically in short crisp sentences; and the whole act does not extend through many sections, as do American banking laws. The Japanese banking laws have neither formal provisions in regard to requirement of a specified capital[4] for the incorporation of a bank, accumu-

[1] E. L. Thorndike, *The Original Nature of Man* (1913), p. 172; W. C. Mitchell, "Human behavior and economics," *The Quarterly Journal of Economics*, vol. xxix, p. 1.

[2] T. B. Veblen, "Why is Economics Not An Evolutionary Science," *The Quarterly Journal of Economics*. vol. xx, p. 373.

[3] Albion Small, *The Cameralists*, chap. xxii.

[4] J. Sano and T. Takagaki, *The Theory of Banking*, Tokyo (1916), p. 59.

lation of a surplus, par value of shares, number and qualifications of incorporators, liability of the stockholders, reserve ratio to deposits, etc. Whenever the Japanese banking laws fail to mention specifically all these and other matters, the Japanese commercial laws are referred to. This situation is somewhat similar to that in Great Britain.[1] The freedom of action afforded the experienced British bankers is the source of the efficient management of their banks; while the rather too loose banking regulation, coupled with the relative inexperience of Japanese bankers, was one of the causes of bank failures, (as may be seen in considering the portfolio of the 74th Bank of Yokohama and others which failed in May, 1920.)

A foreign banking corporation, too, may easily establish a branch in Japan after proper application with the same standing as a banking corporation organized under the laws of Japan. The foreign branch bank is permitted to conduct all the classes of business which a domestic bank undertakes. It ian, of course, sue and be sued in its own name and enter into a contract in its own name. It pays the same registration fee,[2] license tax and business and income taxes on the amount of business done in Japan as do Japanese banks. The foreign branch bank may not have a capital of its own.

The liberality of Japanese banking laws is not confined to the establishment of foreign branch banks in Japan. An individual foreigner has as much right and privilege as a Japanese citizen in matters relating to the establishment of a bank under the laws of Japan. Not less than seven persons,[3] whether they are all foreigners or all Japanese, may

[1] For instance, there is no statutory regulation for the requirement of reserve nor minute regulation of the character of loans.

[2] Registration fee of 15 yen ($7.50) for establishing one branch. *Registration Tax Law*, sec. 6, clause 12.

[3] *Japanese Commercial Code*, ch. iv, sec. 119.

organize a banking corporation; and a bank thus incorporated by foreigners enjoys equal rights, privileges and protection with banks organized by Japanese citizens. It may possess and dispose of real estate, a right which is withheld from a foreign corporation. The liabilities of the stockholders of a banking corporation thus created are the same as in other commercial companies. They are liable, under Japanese commercial law, only to the amount of shares which they hold.[1]

This liberality is also seen in the provisions permitting banks to establish branches at home or abroad, or to control the stock of other banks. Any bank in Japan, whether chartered under special government regulations or as an ordinary commercial bank, may establish branches or agencies abroad after filing a proper application. Japanese banks may also invest in the stock of one or more banks chartered or incorporated under the laws of Japan or of foreign countries. There are no trust laws in Japan prohibiting interlocking directorates. Two of the five Japanese banks which have agencies in the United States are the central banks for the Island of Formosa and of Korea respectively, and their activities are widespread and many fold. There is considerable criticism in Japan of the confusion of functions, but it is not the sphere of this monograph to discuss this matter.

B. *American banking laws*

American banking laws are built upon quite a different political philosophy from that of the Japanese. Americans have regarded the state as primarily an aggregate and only secondarily as a unit, and at the same time are staunch upholders of individualism. The two apparently conflicting political theories, however, are, in fact, complementary.

[1] *Japanese Commercial Law*, sec. 144.

The one is a centripetal force; the other, a centrifugal. The perfect state is nothing but the complete harmony of these two forces—individual and social well-being. American history, however, indicates at various stages the evils of over-individualism.[1] The history of American banking legislation has not been immune from the same evils. In the endeavor to protect the individual, in the United States, the banking business is regarded as quasi-public and is rigidly regulated by minute laws.

A foreign bank which registers a branch or agency in the United States is under the jurisdiction of the state banking law; for each is a sovereign state and each state in the Union has its own banking laws. These state laws almost uniformly throw restrictive measures around branches of foreign banks established in the United States. Take, for instance, the banking laws of the State of New York, which has the most important relations with foreign countries because of the location of the city of New York within the State. In defining the kind of business permitted to agencies of foreign banks, the New York Banking Law says: "When the superintendent shall have issued a license to any such banking corporation, it may engage in the business specified in the immediately preceding section of this article."[2] Referring to the preceding section, it is found that the business specified in the law consists of ". . . . the business of buying, selling or collecting bills of exchange, or of issuing letters of credit or of receiving

[1] Horace White commenting on the silver question in the United States had the following to say: "Anybody who seeks a financial reason will be disappointed. It is part and parcel of our scheme of government that the multitude must decide intricate questions of finance which they do not understand, and where a mistake may produce appalling consequences. There are few statesmen bold enough to confront popular errors squarely." *Money and Banking* (1896), 1st ed., p. 203.

[2] *New York Banking Law*, sec. 146.

money for transmission or transmitting the same by draft, check, cable or otherwise, or by making sterling or other loans or transacting any part of such business." [1] It will be seen that the powers permitted in this section do not include the two leading banking functions—the receiving of deposits and the granting of discounts—but section 140 of the New York Banking Laws expressly prohibits the exercise of these functions by declaring that "no corporation, domestic or foreign, other than a national bank or a Federal Reserve Bank, unless expressly authorized by the laws of this State, shall employ any part of its property or be in any way interested in any fund which shall be employed for the purpose of receiving deposits, making discounts, or issuing notes or other evidence of debts to be loaned or put into circulation as money." [2]

Moreover, the foreign banking corporation is forbidden to transact savings bank,[3] loan company or trust company business in the State of New York. The license issued to the foreign bank is limited to a period of one year, and at each time of renewal the bank has to pay the sum of $250 as a license fee.[4]

The restrictive character of the legislation is still further seen in the fact that it prohibits a person not a citizen of the United States from organizing a bank under the laws of New York or becoming a director of such a bank. Each incorporator or director must be a citizen of the United States and at least three-fourths of them must be residents of the State of New York.[5] Under these provisions no

[1] *New York Banking Law,* sec. 145.

[2] *Ibid.*, sec. 140.

[3] *Ibid.*, sec. 420.

[4] *Ibid.*, sec. 146.

[5] *Ibid.*, sec. 100 and sec. 123.

foreigners may organize a moneyed corporation in the State of New York, either independently or in cooperation with American people.

The banking laws of other states such as California, Oregon and Washington, which have closer relations with Japan, have more or less similar legislation directed against foreign banks. Receiving of deposits and discounting of commercial paper are also prohibited to foreign banks.[1] A minor difference is that in the States of California and Washington a banking corporation may be organized by any three or more natural persons, provided that the majority are residents of these respective states.[2]

While this is the situation with respect to branches of foreign banks, American laws permit establishment of branches of American banks abroad. Under the Federal Reserve Act, national banks having a capital and surplus of one million dollars or more and principally engaged in international banking, are permitted to establish branches in foreign countries and also to invest in the stock of banks or corporations incorporated under the laws of the United States, or of any state thereof.

The Edge Act of December, 1919, further authorized the forming of corporations for the purpose of engaging exclusively in international trade banking and financing operations. The corporation may be formed by not less than five natural persons; a majority of the shares of the capital stock of such corporation must, however, be owned by citizens of the United States.

Most of the state banking laws have provisions similar to those of the Federal Reserve Act, with respect to their own state banks and trust companies.[3]

[1] *Banking Laws of California*, sec. 1; *Banking Laws of the State of Washington*, sec. 52.

[2] *Banking Laws of California*, sec. 3; *Banking Laws of the State of Washington*, sec. 52.

[3] *New York Banking Law*, secs. 110 and 195.

C. *Summary*

From the foregoing survey of Japanese and American banking laws concerning the establishment of foreign branch banks or the establishment of banks with joint capitalization by both natives and foreigners, or by foreigners alone, it will be seen that the Japanese laws are perhaps too liberal. They put foreign branch banks on an equal footing with branches of domestic banks, and permit them to engage in all branches of the banking business, receiving deposits, making loans and discounts and exchange as well as to engage in trust company business. Foreign banks can establish branches in Japan, either with or without capital stock, and have to pay taxes only on their earnings. Foreigners may also organize banks without the cooperation of natives under the laws of Japan. On the other hand, American laws, in particular the banking laws of the State of New York, are far more stringent against foreign banks and foreigners. Foreign banks in New York merely have the status of agencies, which can neither receive deposits subject to check, nor discount commercial paper. Foreigners are ineligible by law to become directors of banks organized under the laws of New York. These rigid restrictions were imposed in order to prevent the establishment of irresponsible banks dealing with immigrants, who had newly arrived suffered much in the past.[1] But these laws should not be applied to other cases also. The city of New York has now a full-fledged open discount market, challenging even that of London. If the American people wish the city of New York to be the leading financial center of the world, they should enact more liberal laws, in order to permit foreign bankers either to establish their own branches or banks jointly with Americans.

[1] *The U. S. Investor*, Boston and New York, no. 47, p. 1818; Nov. 23, 1918.

Certain countries adopted a retaliatory policy against the foreign branches of American banks as a protest,[1] while others began to control American banks [2] as a *modus operandi*. It is well for American bankers to take note of British liberality towards foreign banks.[3] In July, 1914, no less than one hundred and fifty foreign banking institutions maintained branches or agencies in London,[4] in addition to the home offices of many British banks doing business in all parts of the world. Yet a British authority in finance said: "It is certain that the more they open here, the greater will be the advantages to the trade and finance of the country, internal as well as external." [5] It is not without reason that leading American financiers [6] and officials are advocating early modification of state banking laws in regard to the status of foreign banks. The Pan-American

[1] *The Bankers' Magazine*, New York, Nov.. 1919, p. 596; October, 1920, p. 540.

[2] *Fifth Annual Report of the Federal Reserve Board*, 1918, p. 341.

[3] W. F. Spalding, "Foreign Branch Banks as an Aid to British Commerce," *The Bankers' Magazine*, London, July-Dec., 1912, pp. 774-6; Jan.-June, 1917, pp. 56-61; Ellis T. Powell, "The Evolution of the Money Market," 1915, p. 495.

[4] *Fifth Annual Report of the Federal Reserve Board*, 1918, p. 341.

[5] W. F. Spalding. "The Establishment and Growth of Foreign Branch Banks in London, and the Effect, Immediate and Ultimate, upon the Banking and Commercial Development of this Country" (The First Prize Essay, 1911), *Journal of the Institute of Bankers*, London (1911), p. 461.

[6] George E. Roberts, *Dollar Currency in International Trade and Credit*. "To make dollar exchange the peer of sterling exchange in carrying on the world's business requires first of all the establishment of an open discount market in New York with large enough facilities to absorb instantly any amount of paper that may be offered."

"The first step in the establishment of such a market will have to be the removal of the restrictions which now bar foreign banks from operating in a broad way in the New York market or from establishing branches here." The American Acceptance Council's *Acceptance Bulletin*, June, 1921. Reprinted in the *Commercial and Financial Chronicle*, New York, July 9, 1921, p. 132.

financial conference held in Washington, D. C., in January, 1920, already advocated more liberal state banking laws for foreign banks in the United States. Official recognition is given to the parochial character of the New York law in a report presented to the legislature of the State by Hon. G. I. Skinner, Superintendent of Banking, who recommended more liberal legislation.[1] The monthly organ of one of the largest banking institutions in New York, commenting upon the failure of the General Assembly at Albany to pass the bill permitting foreign banking institutions to operate branches in the State of New York, has the following to say: "Its failure to become a law puts the State in the light of pursuing a narrow and inhospitable policy, . . . Foreign banking institutions would bring new business to New York. The more banks there are in this city, and the more countries they represent, the more deposits there will be here and the greater New York will be as a world financial center to the advantage of the whole country, the banking business included." [2]

[1] *The Annual Report of the Superintendent of Banking of the State of New York*, 1920.

[2] The National City Bank of New York, *Economic Conditions, Government Finance and United States Securities*, June, 1921.

CHAPTER V

American-Japanese Investment

Having discussed in previous chapters the various aspects of short term financing, we may turn now to a consideration of long-term financing. The growing importance of the problem is attested by the recent movement for American-Japanese joint enterprise, in particular in connection with operations in Japan. This phenomenon is welcomed by both Americans and Japanese in view of the fact that Japan and the rest of the Orient requires a vast amount of capital to develop its resources, while the United States needs a field of investment for the disposition of her growing surplus of capital, as well as in order to have a more active share in international finance. This course is a good initial step for American investment in the Orient. The United States to-day is probably the only country in the world where there is sufficient surplus capital available for foreign investment.

At present there is still but little American investment in Japan and also only a trifling amount of Japanese capital invested in industrial enterprises in the United States. In late years, however, a number of American Japanese joint industrial enterprises have been under way in Japan, and in all probability, the number will be rapidly increased as the years go by. Opportunities have increased as a result of the war. American investment in Japan and in the rest of the Orient is eagerly welcomed by Japan, a fact which Viscount Shibusawa's efforts, and the speeches and messages [1] of prominent Japanese financial leaders, have clearly

[1] "Japan would make it a fundamental principle of her international

shown. Americans, on the other hand, will be equally interested in such enterprises, as they afford a very promising field of investment for surplus American capital. Another reason for such investment is the fact that the imports of the United States from the Oriental countries exceed her exports into those countries.

It is the purpose of the present chapter to inquire into the present status of mutual investment, the companies organized under joint auspices, and the laws governing foreign investment in both countries. In this chapter it is assumed that mutual investment is desirable as a means of trade promotion and closer economic relations (as has been exemplified in British trade and financial relations with Australia,[1] the Argentine [2] and, to a less extent, with Japan) and there is no discussion of the political aspects of foreign investment which, in not a few cases, has resulted in unpleasant consequences for newer and weaker countries.[3]

I. JAPANESE CAPITAL INVESTED IN THE UNITED STATES

Investment of capital may be divided into two classes, namely, investment in securities and investment direct in industrial enterprises. The important item among Japanese investments in American securities is the fund of the Bank

policy to enter into bonds of closer economic relations with the United States and establish the basis of cooperation with her." K. Shoda (Ex-Minister of Finance), *The Bankers' Magazine*, N. Y., Nov., 1918, p. 490.

[1] "Great Britain would not be able to maintain itself so successfully in spite of American and German competitors were it not for the large sum invested in Australia." *U. S. Commerce Reports*, August, 1905, p. 45.

[2] C. K. Hobson, *Export of Capital*, London (1913).

[3] H. N. Brailsford, *The War of Steel and Gold*, 16th edition, London (1918); Hartley Withers, *International Finance*; T. W. Overlach, *Foreign Financial Control in China*, New York, 1919.

of Japan, which is kept at London and New York and invested in short term bonds, notes and bills. In October, 1918, the reserve kept at these two cities amounted to 1,050,000,000 yen,[1] and was about equally divided between New York and London. Hence the fund held in New York City is roughly 500,000,000 yen or $250,000,000. The greater part of this sum was invested in short term paper, such as the United States Treasury certificates or Anglo-French bonds floated in New York, and in April 1919 amounted to $150,000,000.[2]

The second item among security investments is the holding of United States Liberty Bonds by Japanese who reside in the United States. The total subscription by the Japanese was $6,710,950,[3] which is classified as follows:

First Liberty Loan	$56,200
Second Liberty Loan	133,100
Third Liberty Loan	185,800
Fourth Liberty Loan	4,746,050
Fifth Liberty Loan	1,589,800
Total	$6,710,950

The Japanese Year Book of 1917 states that "between $30,000,000 and $40,000,000 of American railway and industrial debenture bonds were purchased by Japanese merchants." [4] It is also the opinion of Japanese bankers in

[1] On November 30, 1919, the specie reserve kept abroad was 1,340,000,000 yen; that which was kept at home was 616,000,000 yen. Of this total of 1,956,000,000 yen, 1,047,000,000 belongs to the Japanese Government and 909,000,000 yen to the Bank of Japan. *Osaka Bankers' Magazine*, Dec., 1919, p. 596.

[2] Information furnished by the Financial Commissioner of the Japanese Government in New York City.

[3] *Monthly Report of the Japanese Association in the United States*, July 15, 1919.

[4] *Japanese Year Book*, 1917, p. 618.

New York City that the Japanese in the home country bought more than $40,000,000 worth of Anglo-French bonds. As Japanese investors are not familiar with the fluctuations of foreign exchange rates in relation to Anglo-French bonds, Japanese banks in New York City guaranteed an exchange rate of $53 for 100 yen to Japanese investors. The steady decline of the exchange rate on Japanese yen [1] since 1918 must have resulted in a considerable profit to the Japanese banks which guaranteed this rate. These three items, aggregating about $220,000,000 or $230,000,000, represent the entire amount of Japanese capital invested in American securities.

The major part of the industrial investment of Japanese capital in the United States consists of Japanese investments in agricultural and other allied industries in California and other western states. The second item of investment is in connection with industries in the United States supplying raw materials, such as cotton or iron, which are the principal exports of the United States to Japan.

Japanese residents in California own 37,007 acres, while they cultivate 336,721 acres under lease.[2] In 1919 there were 104 Japanese corporations organized under the laws of the State of California and their aggregate capital amounted to $2,348,000.[3] The total wealth of the Japanese in California has been estimated at $25,000,000 [4] including land, buildings, farm implements, machinery, houses and cattle. In 1905 about $1,000,000 of Japanese capital was invested in rice fields in Texas,[5] but since that time it must

[1] See Appendix II.

[2] *American-Japanese Trade Year Book*, 1918, published by Japanese Chamber of Commerce, San Francisco.

[3] *San Francisco Examiner*, April 5, 1919.

[4] *American-Japanese Trade Year Book*, 1918.

[5] *U. S. Consular Report*, March 5, 1905, p. 224.

have increased to some extent, both in acreage and valuation. The Southern Products Company, which was incorporated under the laws of the State of Texas with a capitalization of $12,500,000, is controlled exclusively by the Mitsui Company of Japan. The primary business of the corporation is to facilitate the export of raw cotton from the United States to Japan, although it also undertakes the export of raw cotton to European countries. Another small item of Japanese investment is $500,000 of Japanese capital invested in iron mines in the State of Alabama.

To the above figures, however, may be added the working capital of Japanese companies in New York City and elsewhere. There are at present more than fifty Japanese concerns in the city of New York alone, and many of them represent the largest companies in Japan. Their aggregate working capital must be a considerable sum; at a moderate estimate it probably amounts to more than $200,000,000.

2. INTRODUCTION OF FOREIGN CAPITAL INTO JAPAN

Introduction of foreign capital into Japan began after the Chinese-Japanese War (1894-1895).[1] In the earlier days, foreign investments in Japan had been more largely in the form of the purchase of bonds than in direct interest in industrial enterprises, which is generally true of the history of all foreign investments. Following the termination of the Chinese-Japanese war, the country's industries underwent a conspicuous expansion. In 1896, the number of commercial and industrial companies was 4595 and their paid-up capital 397,564,532 yen. In 1900 the number of companies increased to 8598 and their total capital to 779,251,306.[2]

[1] *Financial History of Japan*, 1868-1909, p. 101, published by the Oriental Economist Publishing Company, Tokyo.

[2] *Ibid.*, p. 95.

In 1900 the total amount of foreign capital invested in Japan was 140,880,000 yen ($70,228,680). Of this amount, 97,630,000 yen represented government foreign loans floated abroad; 43,000,000 yen represented government internal loans sold abroad, and 250,000 yen represented provincial loans floated abroad. But the conspicuous increase in the import of foreign capital into Japan was after the Russo-Japanese War of 1904 and 1905. During the war, Japan had successfully floated foreign loans amounting to more than $500,000,000, to meet her war expenditures. Before the Russo-Japanese War, the market for the floating of Japanese foreign loans was limited to London, but during and after the Russo-Japanese War, the money markets of New York, Paris and Berlin alike, sought the sale of Japanese Government bonds. It was during this period that foreigners began to invest in Japanese private securities. During the four years immediately following the war, nearly 200,000,000 yen of foreign capital were invested in Japanese private enterprises.

In 1910, the total amount of foreign investment in Japan reached 1,777,183,969 yen, which shows that foreign investment expanded to more than twelve times its original size during the first decade of the twentieth century. The classification of the investment was as follows:[1]

Government foreign loans floated abroad	Yen	1,447,217,669
" internal loans sold abroad	"	93,000,000
" internal loans purchased by foreigners	"	108,356,000
Provincial loans floated abroad	"	84,704,500
Debentures floated abroad	"	108,737,800
Foreign investment in banking and commercial companies (estimate)	"	28,168,000
	Yen	1,777,183,969

From 1910 to 1914, there was not much importation of

[1] See Appendix V.

foreign capital into Japan; and during the war it was practically nil.

3. AMERICAN INVESTMENT IN JAPAN

The investment of American capital in Japan began about the time of the Russo-Japanese War (1904-1905). The foremost item of American capital invested in Japanese securities is in Japanese government bonds. During the Japanese-Russian War, the Japanese government floated war loans in New York amounting to more than $100,000,000. The amount outstanding now is $102,552,000. Another investment in Japanese securities is the American capital invested in Tokyo municipal loans, which amounts, at present, to $5,250,000.[1]

American capital investment in Japanese industrial enterprises is mostly by large American corporations in the electric, rubber and aluminum industries, whose aggregate capital investment amounts to eleven million dollars. The characteristic feature of these American investments in Japanese enterprises is the fact that they are undertaken in cooperation with Japanese, and much of the American capital thus invested, represents capital in the form of patent rights of these American corporations. In view of the fact that Japan and the rest of the Oriental countries are far behind the United States in industrial technique, export of American capital in the form of patent right will have a promising field in the Orient.

American capital invested in Japan by American individuals amounts to about three million dollars, of which the largest single investment is $2,416,803 in the Osaka Gas Company by Mr. Anthony N. Brady, a New York investor. This investment began in 1920 with about half the present amount and Mr. Brady's was the very first

[1] *Federal Reserve Bulletin*, January, 1919.

American capital ever invested in a Japanese enterprise. There are American representatives in the Board of Directors of the company. It has increased its capital successively, the present capitalization being 10,000,000 yen, and for the past eleven years it has paid nine per cent. dividends.[1]

Mention may be made of American capital invested in Korean mines before Korea was consolidated with the Japanese Empire in 1910. There are four American mining companies. The aggregate capitalization of three of these four companies is $6,500,000.[2]

In addition there are about fifty established American firms in Japan, besides a number of individual representatives and agents, employing a capital of about $100,000,000.

The total amount of American capital invested in Japan may be tabulated as follows:

In securities,	Japanese Government bonds....	$102,550,000	
" "	Tokyo Municipal loan	45,250,000	
			$147,800,000
In enterprises,	Osaka Gas Company	2,416,803	
" "	Shibaura Engineering Works..	250,000	
" "	Tokyo Electric (Lamp) Co. ..	2,000,000	
" "	Nippon Electric Company	3,000,000	
" "	Osaka Electric Lamp Co.	250,000	
" "	Furukawa Rubber Co.	500,000	
" "	Aluminum Company	5,000,000	
			13,416,803
" "	Korean Mines		6,500,000
Working capital of American firms in Japan			100,000,000
	Total		$267,716,803

[1] Information obtained directly from the Osaka Gas Company.

[2] *U. S. Consular Report*, Oct. 28, 1910, p. 381; Oct. 27, 1911, p. 477; Nov. 24, 1911, p. 987.

4. COMPANIES OF JAPANESE-AMERICAN JOINT INTERPRISE

It may be interesting to see how Japanese enterprises undertaken by American capital in cooperation with Japanese are managed, and what are their financial results, although American-Japanese joint enterprises are still in their pioneer stage and the real results are yet to be seen.

Among American-Japanese joint enterprises, the most important is in the electrical industry in Japan. Both the General Electric Company and the Western Electric Company of the United States are closely connected with the development of the Japanese electrical industry. The former is connected with three Japanese firms, the latter with the Nippon Electric Company. In 1905 the General Electric Company invested 100,000 yen in the stock of the Tokyo Electric Company which, at that time, was capitalized at 400,000 yen. Having successfully developed its business, the present capitalization of the company is 10,000,000 yen, of which 4,000,000 yen is owned by the General Electric Company. The General Electric Company also invested 500,000 yen in the stock of Osaka Electric Company. These investments represent both cash and the capitalized values of patent rights. In 1912 the General Electric Company participated in the Shibaura Engineering Works of Tokyo to the extent of twenty-five per cent of the two million yen represented by the shares. The 500,000 yen interest was paid for partly in cash and partly through the sale of certain patent rights for a period of years, as in the case of the other affiliated companies of the General Electric Company. These Japanese companies obtain all the benefits possible from the patents of the American company and also are privileged to send their engineers to any of the General Electric Company's American factories.[1] In these Japanese

[1] *Corporate Undertakings and their Management after the War*, 1915, p. 52. Published by *The Oriental Economist*.

companies, the General Electric is represented by having American members on the board of directors of these firms, but the general daily business of the companies is entirely managed by Japanese officials. Mr. J. R. Geary, the representative of the General Electric Company in Japan, speaking of this management, said: "Be it remembered that the entire staff of the company is Japanese from the office boy to the president; yet the results have been equally satisfactory . . . ." "The industrial capacity of the Japanese can attain as high a standard of industrial production as that of any people in the world under capable direction and emancipation from starvation wages."[1] Since 1912, the Tokyo Electric Company has been paying twenty per cent dividends. In 1913, the Shibaura Engineering Works paid a ten per cent dividend, while in 1918, they paid a thirty-five per cent dividend on their capital stock.[2] Again quoting Mr. Geary, "the partnership between Americans and Japanese in the electrical business is no mere experiment; it has been attended with unvarying success for the fifteen years of its existence and with marked financial benefit to both parties."[3]

Another important joint enterprise is in the rubber industry. The Furukawa firm of Tokyo established the Furukawa Rubber Company in cooperation with the Goodrich Rubber Company of the United States, for the purpose of building up a greater rubber industry in Japan, which procures the greater part of its supply of raw materials from the South Seas and the Malay peninsula. The initial capital of the corporation was 2,000,000 yen, of which the shares were equally divided between Furukawa and Goodrich. In this

[1] "Linked to Japan in Big Industry," Special Correspondence of *The New York Times*, July 29, 1920.

[2] *The Stock Year Book*, Nomura Company, Osaka.

[3] *The New York Times*, July 27, 1920.

joint interprise, it is understood that machinery from the United States covered by American patents is to be used, and while the profit is to be shared, the Japanese partners have to pay their American associates royalties on all American patents used.

The American-Japanese Aluminum Company, which has been organized very recently with a capitalization of $10,000,000, is going to utilize Japan's hydro-electric power, which is relatively abundant, and her labor force in its operation, while raw materials are to be supplied from the United States.[1]

Another interesting American-Japanese joint enterprise is the American-Japanese Phonograph Company, although the enterprise is not a large one. The manufacturing plant of the company is located near Yokohama, and its capital is $125,000. Eighty per cent of this amount is owned by Americans and the balance by Japanese. A selling company known as the Nipponophone Company (Limited) was incorporated in 1910 with a paid-in capital of $175,000. This company is owned and controlled by the American-Japanese Phonograph Company, and its business is to dispose of the output of the manufacturing concern. One of the methods of the selling company was to make every dealer a stockholder. This will result in Japanese dealers ultimately owning nearly fifty per cent of the stock.[2]

Besides these joint enterprises there are still several others, and some are under negotiation. A well-known American automobile manufacturer is negotiating with a Japanese capitalist to establish a joint automobile factory in Japan. While the details of the contract are yet to be as-

[1] *The Japanese-American*, San Francisco, March 12, 1920.

[2] *U. S. Consular Reports*, Oct., 1910, p. 1049; Apr., 1913, p. 400; *U. S. Special Consular Report*, no. 55, "Foreign Trade in Musical Instruments."

certained, the obvious intention, it is understood, is to displace the unsightly jinrikisha and coolie-cart by the motor car and truck.

While all the foregoing joint interprises are located in Japan, there are some American-Japanese enterprises undertaken in California. In the fall of 1919, Mr. C. B. Bills, formerly a senator of the State Legislature of California, visited Japan and persuaded the leading financiers of Japan to establish banks or companies under joint American and Japanese auspices. The first result of his efforts was the establishment of a canning company with a joint capitalization of $4,000,000. The new company is to control and enlarge the existing Burten Canning Company in Sacramento by investing in it $600,000.[1]

Although very little of the facts are known to both Japanese and Americans the agreement entered into between Bonbright and Company of New York and the Fujimoto Bill Broking Bank of Osaka,[2] as well as the establishment of an agency of the National City Company in Tokyo, was evidently aimed at the mutual introduction of bonds and stocks in the American and Japanese markets. Japan is rapidly developing her industrial enterprises,[3] and her stocks

[1] Mr. Bills's idea of cooperation is interesting. According to him the real cause of the anti-Japanese movement in California is the feeble financial strength of the Japanese and the lack of mutual economic cooperation between the Californians and the Japanese. The remedy must therefore be sought by establishing industrial and financial corporations of joint capitalization, with the special idea of giving financial assistance to Japanese residents in California. His idea was deeply appreciated by the Japanese, and Baron Shibusawa and other prominent Japanese, numbering 230, tendered a reception at the Bankers' Club in Tokyo to honor his departure. *The Osaka Mainichi Shimbun*, March 4, 1920.

[2] Agreement entered into in September, 1919.

[3] Total Japanese capital invested in Japanese industries in 1913 was about two billion yen, in Dec., 1918, seven and one-half billion yen.

and bonds are as actively bought and sold as in the United States. The listed stocks and bonds are as safe and marketable as any gilt-edged American securities. The chief inducement to invest in Japanese bonds and stocks is the relatively higher return of interest and dividends.

In 1912, the average dividends paid by seventy industrial companies on their capital were 18.15 per cent, and in 1913 they were 19.4 per cent. In 1918, the dividends paid by 79 companies were 26.85 per cent. Dividends paid by 33 companies,[1] which are selected at random, from 1907 to 1913 were 12.63 per cent; from 1914 to 1918, 16.35 per cent. Dividends paid by about 858 British companies from 1909 to 1918 were 8.07 per cent., and dividends paid by 1070 British companies during the war, (1914-1918), were 10.70 per cent.[2]

The chief cause of the payment of relatively high dividends is the scarcity of capital in Japan. As "Japanese industries, trade and production are still more or less in the expansion stage, there is an ever-growing demand for all forms of capital, and accommodation is, in consequence, somewhat expensive. High rates are given and charged for the use of money."[3] In 1913, the official discount rate of the Bank of Japan remained at 6.75 per cent throughout the year; and then in July, 1914, it was raised to 7.3 per cent, where it remained until April, 1916. In March, 1917, the rate went down to 5.11 per cent; but from the fall of 1918, it rose gradually until in November, 1919, it stood at 8.03 per cent, and this rate is still in force. In 1913, the mean market rate of discount in Tokyo was 8.4 per cent, while 5.1 per cent interest was paid by the banks

[1] See Appendix X.

[2] (London) *Economist*, April 19, 1919.

[3] W. F. Spalding, *Eastern Exchange, Currency and Finance*, London (1917), p. 154.

in Tokyo for time deposits (for not less than six months). in February, 1920, the Osaka Banker's Association established a rule that not more than 6.5 per cent should be paid for time deposits (for not less than six months); while interest paid by savings banks on deposits was 4.38 per cent.[1]

5. LEGAL STATUS OF FOREIGN INVESTMENT

A. *Japan*

Having examined the existing conditions as to mutual investment between the United States and Japan, our remaining task is to inquire what are the main obstacles to such mutual investment and how they may be encouraged. Our inquiry has been limited to legislation in both countries relative to investments.

The Japanese laws regarding investment by foreigners in Japan are, as in the case of her banking laws, characterized by their liberal provisions. Foreigners and foreign corporations in Japan enjoy the same rights and privileges accorded to her native citizens and corporations. As to incorporations, any natural persons, not less than seven in number, may organize a corporation under the laws of Japan and the corporation thus incorporated has unconditional rights and privileges. An apparent restriction imposed upon the foreigner and the foreign corporation, however, is the fact that they are not allowed to engage in mining enterprises or to acquire land in Japan except for residential and office purposes, although they may lease land and own the building or trees on it for ninety-nine years.[2] While no foreigners

[1] *The Oriental Economist Year Book*, 1920; *The Financial and Economic Annual of Japan*, 1919.

[2] The history of prohibition of land holding by foreigners is rather pathetic. Having witnessed the exploitation of China by the Western nations, the frightened Japanese, in January, 1874, prohibited land

suffer from this restrictive legislation or object to it, it would be to the interest of Japan to repeal these rather time-worn restrictions. It is a self-imposed penalty upon the industrial development of Japan. Capital has no frontiers; it flows into industries, foreign or domestic, where the relatively higher return, the safety of principal and the marketability of the securities are assured. An older Japanese might have entertained the view that equal freedom and opportunity afforded to a foreign people in Japan, not excluding even Korea or Formosa or Japanese Saghalien, might result in the economic domination of foreigners in Japan. Such a view today is a mistake, and as a nation progresses, protectionism must give way to liberalism.

B. *The United States*

As in the case of regulation of foreign banks, the status of foreigners in regard to the investment of capital in the United States is governed by the laws of each state, and these state laws, particularly the state corporation laws, differ very widely in the various states. Inasmuch as the greater part of the existing Japanese capital invested in American industries is located in the State of California, our inquiry has been centered upon the laws of that state and of a few others.

The laws of the State of California in regard to investment of foreign capital, in particular as to the agricultural industry, are unique, differing from those of all the other states. There are two kinds of laws which regulate two

owning by foreigners. They thought that so long as absolute ownership is not transferred to foreigners, the country would be safe from foreign intervention. They granted, however, ninety-nine year leases to foreigners, the longest term they could grant. *Foreign Land Ownership and Leasing in Japan*, published by the Japanese Association of America, San Francisco.

types of aliens, namely: European and Asiatic aliens. According to the Anti-Alien Land Law which had been in force since 1913, a foreigner who is eligible to citizenship in the United States by virtue of his white or black race, can acquire and lease land the same as a native citizen. Asiatic aliens, however, to which class the Japanese belong, as they are not eligible to American citizenship under the existing laws and customs of the United States, can not own real property nor hold land by lease for more than three years. In the same way, a corporation, whether it is organized under the laws of the State of California or of any other country or nation, in which the majority of the members or stockholders are ineligible aliens, can not acquire land nor lease it for more than three years.[1]

But in November, 1920, the law of 1913 was replaced by a still more drastic measure.[2] The new law of 1920 stated that all aliens not eligible to American citizenship under the laws of the United States, or corporations in which ineligible aliens hold an interest, can neither acquire nor lease real property including agricultural land. It states further that Japanese parents who are not American citizens by virtue of their birth on American soil cannot purchase land in the name and in behalf of their children who are American citizens.

To show the contrast between the laws of California and of other states, the laws of the State of New York may be cited. According to the existing laws of New York, foreigners and foreign companies are permitted to acquire real property. To form a business company, other than a moneyed corporation, however, it is required that two-thirds

[1] *Anti-Alien Land Law of the State of California*, approved May 19, 1913.

[2] *Alien Land Law of 1920. Report of State Board of Control of California to Governor W. D. Stephens*, June, 1920, p. 229.

of the incorporators must be citizens of the United States and one of them a resident of the state. The laws of the states of Oregon, Washington and Texas are more or less similar to those of New York.

The laws of California against the Japanese are singularly severe as well as discriminating. They differ essentially from the Japanese laws in that, by these no foreigners are affected, but the laws are rather a self-imposed penalty upon Japan as they hinder her economic development. On the other hand, the material effect of the laws of the State of California upon the investments of Japanese residents is great and immediate; but the still greater harm of such legislation to us is its moral as well as psychological effect upon American-Japanese financial relations. The Anti-Alien Laws of California, however, are less economic than they are political and racial in their fundamental nature. As this matter lies beyond the scope of the present work, our concluding remarks will be of a broad nature. In the words of James Bryce: " As the earth has been narrowed through the new force . . . . the movement of politics, of economics and of thought, in each of its regions become more closely interwoven. World History is tending to become One History."[1] Indeed this is true. As a result of the rapid development of transportation and of conquest of space by human ingenuity, it is no longer possible at present, as in the past, for a country or nation to keep itself in isolation. Natural barriers, which formerly proved so potent, no longer exercise their old influence. The people of one country are necessarily bound to commingle with the people of other nations. The consciousness of kind[2] is ever widening toward infinite human per-

[1] *Presidential Address to the International Congress of Historical Studies*, April, 1913. Quoted in E. P. Powell's, *Evolution of the Money Market*, 1915, p. 704.

[2] F. H. Giddings, *The Principles of Sociology*, Preface.

fectibility.[1] But this increasingly intimate relationship among nations brings in its train many complicated problems, pleasant and unpleasant, apparently insoluble. Some nations erect legislative ramparts as well as build defences around their shores to shut out the intruders, while others, under cover of apparent friendliness, exploit the weak; all of which results in aggravating instead of solving the problems. The enlightened thoughtful man can easily perceive the fact that such visionless, time-worn methods are not the constructive way to deal with the new forces.

[1] "*Qu'il n'a 'été marqué aucun terme' au perfectionnement des facultés humaines, que la perfectibilité de l'homme est réelement indefime,*" Marquis de Condorcet (1734-1794), *Esquisse d'un tableau historique des progrès de l'esprit humaine*, p. 4.

CHAPTER VI

SUMMARY AND CONCLUSION

IN closing we may summarize briefly the chief points of the discussion and deduce therefrom conclusions in regard to the betterment of financial relationships between Japan and the United States. While the discussion at times may have appeared to run along divergent lines, in retrospect it will be seen to converge entirely on the financial side. All the subsidiary problems have their definite relation to the financial problem, and become integral parts of it. This financial problem, notwithstanding its essential unity, may, however, for convenience be divided into two phases,—short term and long term. Both of these problems are closely related at certain points, but at others important differences develop, and the situation with respect to both has by no means been parallel. The short term financing problem has, on the whole, been uppermost, but that with respect to long term financing, while occupying a minor position during the greater part of the war period, has recently again come into prominence.

The problem with respect to short term financing is a pressing one because of the rapid growth and present importance of American-Japanese trade. This trade is of such a nature as to lead us to believe that it is likely to increase rather than to diminish in the future. The reasons for this assertion are the fact that the leading Japanese imports from the United States are raw cotton, iron and steel, of which the United States is the chief producer in the world. These raw materials are worked into finished

goods in Japan, and large quantities of them are exported to other Asiatic countries. The extensive importation of these raw or semi-manufactured materials from the United States, however, is only possible as a return for large exports of Japanese raw silk, tea and many other indigenous Oriental goods to the United States.

The growth of this trade during the war period, together with the dislocation of existing agencies and means whereby it had been financed, raised serious problems. Attempts were made in various ways to meet these difficulties, which in their ramifications involved the entire Japanese financial structure. These problems may be summarized under the heads of foreign exchange, including currencies, rates, and gold movements; the discount market with its component factors; standardized types of paper; the internal banking structure, including the relation of the central bank to the market, and the relation of banks exclusively financing foreign trade to the ordinary commercial banks; the conditions of note issue; the relation of the government to the financial market; and financial relations with foreign countries. They, of course, are closely interwoven, and any one of them involves consideration of the others as well. As their development was, however, part of a continuous process, it is necessary to study them in their historical background, commencing with 1914.

Owing to the war, the inability of London to finance American-Japanese trade as it had formerly financed it, forced these countries to resort to direct financing as the only alternative. Direct financing by the use of dollar and yen exchange, however, depended upon the efficient utilization of an open discount market, which requires as its working factors standardized discountable paper, i. e., bankers' acceptances, a free gold market, a central banking system and well established banking relations with other countries.

These factors, which are indispensable to the successful operation of direct exchange, were in great measure lacking. Consequently financing has been effected by a series of makeshifts. In the first stage, gold movements were employed; but this method terminated with the proclamation of an embargo on gold exports by the United States and then also by the Japanese government. The serious effect of the embargoes on Japan's foreign trade was that they deprived her of the means of securing the proceeds of her export trade, as well as of the means of paying for her imports. As a result, new means were adopted during what may be termed the second stage. In order to relieve the situation, the Japanese government attempted to adjust the exchange situation by subscriptions to allied loans, by the issue of emergency exchequer bonds and by the issue of bank notes based on the funds left to accumulate in New York. These attempts were, however, unsuccessful, owing to the unwise financial policy of the government, coupled with the poor financial organization in Japan; and caused considerable social and financial disturbances in Japan. Difficulties thus experienced led the leading Japanese financiers to introduce in Japan an open-discount market during what may be termed the post-armistice period.

Banking relationships between the two countries during this entire period have been entirely inadequate. Only one American bank was represented in Japan prior to 1919, with two branches there, while there had been virtually but one Japanese bank represented in the United States with one branch and one agency. Similarly the other countries of Asia lack good American banking connections. The impossibility of financing Japanese-Indian trade through the city of New York afforded convincing proof of the inadequacy of American banking facilities in the East. During and after the armistice a few more banks in each of the two

countries established either agencies or branches in the other country, but present banking relationships still leave much to be desired.

Mutual long-term investment is still in its period of infancy. The prospect, however, seems bright, as may be seen from the recent movement for the incorporation of a number of American-Japanese joint industrial enterprises located in Japan. It is very likely that this initial undertaking may serve as a stepping-stone for further American investment in the Orient, particularly in cooperation with the Japanese. The advantage of investing capital in Japanese industry is the relatively high yield, which is attributable to the relative scarcity of capital in Japan as well as in the other countries of the East.

We may now consider the present situation and the future outlook, deducing from our study such suggestions as may be of value in improving the relations between the two countries.

1. In the case of Japan, the efficient financing of her foreign trade, in particular American-Japanese trade, requires first of all the full development of the open discount market in Japan. This involves the standardization of Japanese credit practice in which she is lamentably lacking. The present unsatisfactory condition of her credit system is largely attributable to the habitual use of unscientific business methods, in particular her disorganized accounting system. The reform of her business practices will be a hard task; but it will be amply repaid.

2. With the full development of the discount market, the central bank will discharge its real functions, for the central bank itself is one of the factors that go to make up the discount market. The official rate will have fuller control of market rates than in the past; the system of note issue will be put on a sound, elastic basis, and interest rates

will be made more uniform and steady than under existing conditions.

3. Again, under the new system, the relationship between the ordinary domestic commercial banks and the exchange banks which specialize in the financing of foreign trade will be more harmonious. The commercial banks will find it very profitable to invest their funds in short term discountable commercial paper in order to keep their reserves in a highly liquid condition. The increase of the exchange banks will necessarily broaden the field of desirable investment for the commercial banks. This principle holds true whether the exchange banks are domestic or foreign institutions.

4. The present system of note issue of the Bank of Japan which gives arbitrary power to the Minister of Finance must be modified in order to restrain him from indiscriminate note issue based on funds kept abroad. Lessen government control, and in time the basis of note issue will be strengthened.

5. One obstacle in Japan for American investors may be found in the denial to foreigners of the privilege of full ownership of land in Japan and of mining property other than on the mainland of Japan.

6. In the case of the United States, one of the unsatisfactory features of her financial system in reference to international finance is the hostile attitude of her state banking laws towards foreign banks in the United States. Many states, including the state of New York, prohibit the establishment of branches of foreign banks in the respective states. For the organization of a special bank by foreigners in the United States, these state laws require that two-thirds or more of the incorporators be citizens of the United States. Banking legislation of such parochial nature is not only detrimental to the efficient financing of American-Japanese

trade but is also injurious to the development of the city of New York as a financial center.

7. Although the United States is rapidly developing an open discount market, the higher rate for call loans on account of the daily settlement of transactions on the stock exchange is a factor which materially impedes the growth of the acceptance market. It is seriously open to question whether better coordination of the several markets in the United States is not desirable.

8. As this monograph has shown, American banking facilities in Asia are still inadequate. It will be impossible to build up America's over-seas banking system in a year or so. Conscious and long continued effort is required for success.

9. One impediment to Japanese investment in the United States is the existence of the unsatisfactory state corporation laws which require that two-thirds of the incorporators be American citizens.

10. Another hindrance to sound financial relations is the Anti-Alien Land Law in the State of California. As the major part of the present Japanese investment in the United States is in that state, the law has resulted in material detriment to present Japanese investments.

11. With respect to mutual long-term investments, while their development will be relatively slow and depends upon actual needs and opportunities, the way should be made as easy for it as possible.

APPENDIX I.

JAPANESE EXPORTS TO THE UNITED STATES, CHINA, AND THE UNITED KINGDOM OF GREAT BRITAIN AND IRELAND. AMOUNT, INDEX NUMBERS AND PERCENTAGES OF TOTAL EXPORTS OF JAPAN.

(In thousands of Yen, i. e., 000 omitted; 1900 = 100.)

Year.	Total Jap. exports.	Index number.	Jap. exp. to the U. S. A.	Index number.	Per cent of total exports.	Jap. exp. to China.	Index number.	Per cent of total exports.	Jap. exp. to the U. K.	Index number.	Per cent of total exports.
Average, 1900–1909		161	......	195	29	......	215	21	......	163	6
1910....	458,428	224	143,702	278	31	90,037	280	20	25,781	228	6
1911....	447,433	219	142,725	271	32	88,153	276	20	23,824	211	5
1912....	526,981	258	168,708	320	32	114,824	360	22	29,792	264	6
1913....	632,460	309	184,473	350	29	154,660	485	24	32,870	291	5
Average, 1900–1913		187	......	221	30	......	254	21	......	188	6
1914....	591,101	289	196,539	373	33	162,371	509	27	33,086	293	6
1915....	708,306	346	204,141	388	29	141,123	449	20	68,494	608	7
1916....	1,127,468	552	340,244	647	30	192,713	602	17	102,658	910	9
1917....	1,603,005	784	478,537	910	30	318,381	998	20	202,646	1799	13
1918....	1,962,100	960	530,129	1008	27	359,159	1126	18	142,866	1268	7
1919....	2,098,872	1027	828,097	1575	39	447,049	1403	21	111,453	989	5
1920....	1,948,395	953	565,017	1075	29	410,270	1281	21	97,797	865	5
Average, 1914–1920		660	......	817	31	......	848	21	......	978	9

Sources (Appendix I and II):

The Financial and Economic Annual of Japan, 1900–1920, the Dept. of Fin., Tokyo.
The Annual Return of the Foreign Trade of Japan, 1900–1920.
The Monthly Report of the Foreign Trade of Japan.
The Oriental Economist Year Book, 1917–1920, Tokyo.
Japan Year Book.

APPENDIX II.

JAPANESE IMPORTS FROM THE UNITED STATES, CHINA, AND THE UNITED KINGDOM OF GREAT BRITAIN AND IRELAND. AMOUNT, INDEX NUMBERS AND PERCENTAGES OF TOTAL IMPORTS OF JAPAN.

(In thousands of Yen, i. e., 000 omitted; 1900 = 100.)

Year.	Total Jap. imports.	Index number.	Jap. imp. from the U. S. A.	Index number.	Per cent of total imports.	Jap. imp. from China.	Index number.	Per cent of total imports.	Jap. imp. from the U. K.	Index number.	Per cent of total imports.
Average, 1900-1909		130	......	104	17	......	155	13	......	115	22
1910....	464,233	162	54,699	87	12	68,570	228	15	94,701	132	20
1911....	513,805	179	81,250	129	16	62,000	200	12	111,167	155	22
1912....	618,992	215	127,015	202	21	54,807	182	9	116,147	162	19
1913....	729,431	254	122,408	195	17	61,223	204	8	122,737	178	17
Average, 1900–1913		151	......	118	17	......	169	12	......	126	21
1914....	595,735	207	96,771	58	16	58,306	194	10	92,302	128	15
1915....	532,449	185	102,534	163	19	85,848	286	16	58,084	81	11
1916 ...	756,427	263	204,078	325	27	108,639	362	14	81,732	114	11
1917....	1,035,811	361	359,705	573	35	133,271	444	13	63,304	88	6
1918....	1,668,143	581	626,205	999	37	281,709	940	17	66,067	92	4
1919....	2,173,459	757	766,387	1222	35	322,101	1075	15	127,541	178	6
1920....	2,336,175	814	837,177	1329	36	218,089	727	9	232,215	322	10
Average, 1914–1920		392	......	572	28	......	550	14	......	124	9

APPENDIX III

DISTRIBUTION OF THE FOREIGN TRADE OF THE UNITED STATES WITH ASIA.

(In thousands of dollars, i. e., 000 omitted.)

Year.	Exports from the United States.						Imports into the United States.					
	Into Asia.	Per cent of total exports.	Into Japan.	Per cent of total exports.	Into China.	Per cent of total exports.	From Asia.	Per cent of total imports.	From Japan.	Per cent of total imports.	From China.	Per cent of total imports.
Average, 1900–1909		5	......	1.96	......	1.56	......	14.82	......	4.54	......	2.48
1910....	60,861	3.49	21,959	1.25	16,320	.94	193,155	12.45	66,398	4.26	29,990	1.92
1911....	85,422	4.17	36,721	1.79	19,287	.94	213,449	13.98	78,527	5.14	34,227	2.24
1912....	117,461	5.33	53,478	2.42	24,361	1.10	225,468	13.64	80,607	4.87	29,573	1.79
1913....	115,056	4.66	57,741	2.34	21,326	.87	276.494	15.25	91,633	5.05	39,010	2.15
Average, 1900–1913		4.76	......	1.95	......	1 39	......	15.33	......	4.64	.....	2.35
1914....	113,425	4.80	51,205	2.44	24,698	1.04	286,952	15.15	107,355	5.66	39,382	2.08
1915....	114,470	4.13	41,517	1.50	16,402	.59	247,770	14.80	98,882	4.90	40,156	2.40
1916....	278,610	6.43	74,470	1.71	25,131	.57	437,181	19.89	147,644	6.71	71,655	3.26
1917....	380,249	6.05	130,427	2.07	37,195	.59	615,217	23.14	208,127	7.82	105,905	3.98
1918....	447,429	7.56	267,641	4.52	43,476	.73	826,193	28.05	284,945	9.67	116,644	3.96
1919[1]...	701,167	8.85	366,364	4.63	118,274[2]	1.50	1,041,444	26.67	409,853	10.50	170,177	4.35
1920....	771,954	9.38	377,962	4.59	152,875	1.85	1,283,801	24.31	414,565	8.00	204,222	3.86
Average, 1914–1920		6.74	......	3.07	......	.98	......	21.67	......	7.61	......	3.41

[1] Figures for the years 1919 and 1920 are for calendar years.
[2] American-Chinese trade for 1919 and 1920 includes trade with Kwantang-leased territory.

Sources (Appendix III and IV):
Commerce and Navigation of the U. S. A., 1900–1919.
The Statistical Abstract of the U. S. A.
Monthly Summary of Foreign Commerce of the U. S. A.

APPENDIX IV.

DISTRIBUTION OF THE FOREIGN TRADE OF THE U. S. A.

(In thousands of dollars. i. e., 000 omitted.)

Countries.	U. S. A. imports from	Per cent of total U. S. imp.	Rank.	U. S. exports into	Per cent of total U. S. exp.	Rank.	Total U. S. trade with	Per cent of total U. S. trade with	Rank.
	July 1, 1913–June 30, 1914.								
United Kingdom	293,661	15.50	1	594,271	25.13	1	887,933	20.32	1
Germany	189,919	10.03	2	344,794	14.58	2	534,713	12.30	2
Canada	160,689	8.49	3	344,716	14.58	3	505,406	11.53	3
France	141,446	7.47	4	159,818	6.76	4	301,265	7.12	4
Cuba	131,303	6.93	5	68,884	2.91	7	200,188	4.92	5
Japan	107,355	5.67	7	51,205	2.17	9	158,561	3.92	6
Netherland	36,294	1.92	10	112,215	4.75	5	148,509	3.33	7
East Indies	111,903	5.91	6	15,625	.66	10	127,528	3.28	8
	July 1, 1917–June 30, 1918.								
United Kingdom	190,082	6.45	5	1,995,863	33.72	1	2,185,945	20.09	1
Canada	434,254	14.74	1	778,490	13.15	3	1,212,744	13.95	2
France	75,638	2.57	7	883,739	14.93	2	959,372	8.75	3
Japan	284,945	9.67	3	267,641	4.52	5	552,586	7.10	4
Cuba	264,024	8.97	4	235,469	3.98	6	499,493	6.48	5
East Indies	296,606	10.07	2	52,292	.88	8	348,899	5.48	6
Italy	30,014	1.02	8	477,898	8.07	4	507,913	4.55	7
Mexico	140,659	4.78	6	107,077	1.81	7	247,736	3.30	8
	1920, Calender Year.								
United Kingdom	513,847	9.74	3	1,825,030	22.18	1	2,338,877	15.96	1
Canada	611,788	11.60	2	971,854	11.81	2	1,582,642	11.76	2
Cuba	721,696	13.67	1	515,083	6.26	4	1,236,779	9.96	3
France	165,655	3.84	5	676,193	8.22	3	841,848	5.68	5
Japan	415,656	7.87	4	377,963	4,29	5	793,617	6.23	4

APPENDIX V.

PRINCIPAL COMMODITIES IMPORTED INTO THE UNITED STATES FROM JAPAN. AMOUNT AND PERCENTAGES OF TOTAL IMPORTS.

(In thousands of dollars, i. e., 000 omitted.)

Year.	Raw Silk.			Tea.			Manufactures of Silk.			Braids.		
	Total U. S. imp.	Imported from Jap.	Per cent.	Total U. S. imp.	Imported from Jap.	Per cent.	Total U. S. imp.	Imported from Jap.	Per cent.	Total U.S. imp.	Imported from Jap.	Per cent.
Average, 1900–1909 ..		......	52.8	......	......	44.2	......	......	13.5	....	....	22.5
1910	67,424	40,103	61.	13,672	6,335	46.	32,635	2,858	9.	5,052	987	20.
1911	72,714	47,248	65.	17,614	9,273	52.	32,138	3,011	9.	4,597	1,292	28.
1912	67,173	47,316	70.	18,207	9,213	50.	27,204	2,912	11.	5,010	1,371	27.
1913	82,147	57,192	70.	17,433	7,793	44.	27,590	3,044	11.	6,520	3,146	48.
Average, 1909–1913 ..		......	57.	......	......	46.	......	......	12.	....	....	25.
1914	97,828	71,344	72.	16,735	7,171	43.	35,455	4,226	12.	6,337	3,589	57.
1915	80,532	58,804	73.	17,512	7,983	44,	25,042	4,908	20.	5,002	3,581	72.
1916	119,484	88,059	74.	20,600	8,976	44.	31,911	6,760	21.	6,097	3,315	54.
1917	156,085	124,925	80.	19,265	8,825	46.	40,322	11,568	29.	7,739	4,342	56.
1918	183,076	153,740	84.	30,890	9,511	31.	30,899	13,074	42.	8,822	4,081	46.
1919	329,339	256,114	78.	20,146	10,219	50.	53,930	31,807	59.	14,103	....	..
Average, 1914–1919 .		......	77.	......	......	43.	......	......	31.	....	....	56.

APPENDIX V.—*Continued.*

Year.	Potteries.			Mats and Matting.			Copper.		
	Total U. S. imp.	Imported from Jap.	Per cent.	Total U. S. imp.	Imported from Jap.	Per cent.	Total U. S. imp.	Imported from Jap.	Per cent.
Average, 1900–1909	......	......	9.4	......	......	64,20	......	......	2.60
1910	9,359	1,254	13.	2,423	1,443	60.	30,888	3,119	10.
1911	9,708	1,241	13.	1,947	1,104	56.	31,966	2,030	6.
1912	8,554	1,227	14.	1,819	920	51.	35,791	2,868	8.
1913	8,556	1,192	14.	1,651	807	49.	44,612	2,351	5.
Average, 1900–1913	......	......	11.	......	......	61.	......	......	4.
1914	7,863	1,267	16.	2,097	1,280	61.	39,551	1,759	4.
1915	5,286	1,103	21.	1,574	1,026	65.	19,744	1,638	8.
1916	3,545	1,093	31.	1,328	1,043	79.	49,559	2,844	6.
1917	3,152	1,549	49.	1,834	1,427	78.	86,769	2,086	2.
1918	3,593	2,211	62.	1,828	1,691	03.	83,746	300	..
1919	7,150	2,276	32.	3,598	3,257	91.	86,256	......	..
Average, 1914–1919	......	......	35.	......	......	78.	......	......	..

APPENDIX VI.

PRINCIPAL COMMODITIES IMPORTED INTO JAPAN FROM THE UNITED STATES. AMOUNT AND PERCENTAGES OF TOTAL IMPORTS.

(In thousands of yen, i. e., 000 omitted.)

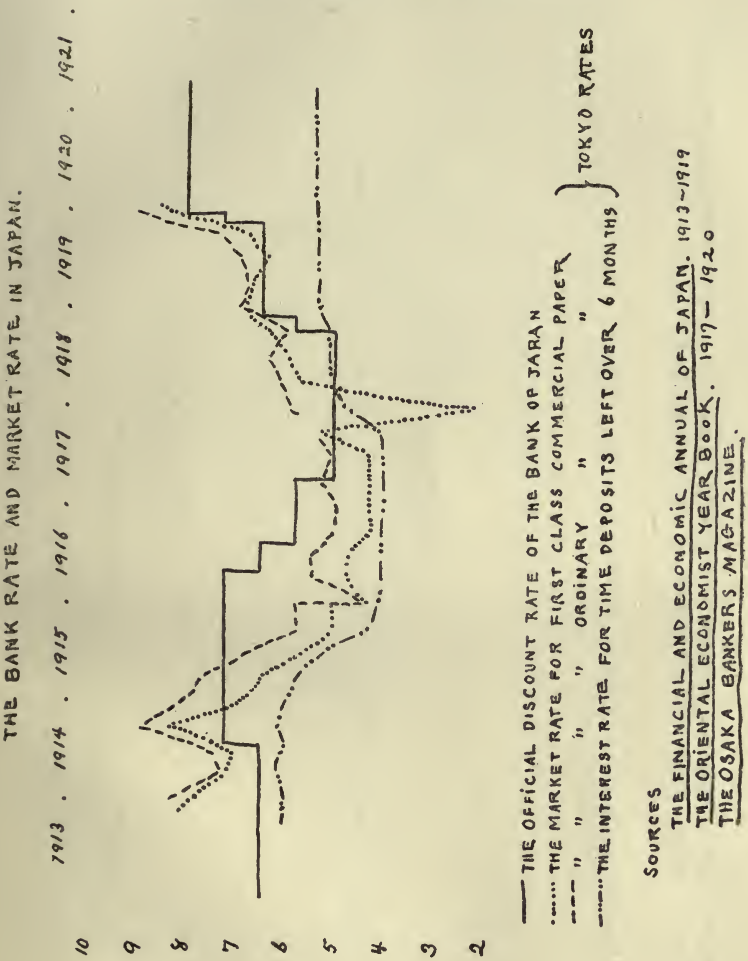
Year.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.
	Cotton.			Kerosene Oil.			Wheat flour.			Wheat.			Sole leather.					
Average, 1900–1909			25.	......	......	68.7	......	......	95.6	......	......	56.4	......	......	67.5			
1910..	159,222	17,193	11.	14,303	9,955	70.	1,739	1,614	93.	3,338	1,499	45.	1,065	1,047	98.			
1911..	146,783	29,259	20.	13,065	9,010	69.	1,703	1,626	95.	3,729	3,448	92.	1,502	1,500	100.			
1912..	200,824	64,601	32.	12,433	9,072	73.	1,722	1,566	91.	4,410	4,278	97.	1,242	1,235	99.			
1913..	233,599	64,222	27.	11,102	7,577	68.	1,780	1.601	90.	12,351	9,492	77.	803	799	99.			
Average, 1900–1913			24.	......	......	69.	......	....	95.	......	......	68.3	......	......	77.			
1914..	218,975	53,966	25.	8,657	6,402	74.	1,264	1,139	90.	8,489	5,573	66.	412	408	99.			
1915..	217,316	55,654	26.	8,464	6,695	79.	194	174	90.	1,639	224	14.	435	434	100.			
1916..	276,089	79,370	29.	5,571	4,983	89.	94	77	81.	1,356	19	..	425	425	100.			
1917..	330,976	84,085	25.	5,305	4,904	92.	59	6	11.	666	......	..	184	165	90.			
1918..	515,559	205,108	40.	8,538	7,387	87.	1,286	......	..	9,440	......	..	593	576	97.			
1910..	667,866	286,112	43.	21,675	18,427	85.	7,758	21	..	38,530	......	..	1,350	1,333	99.			
Average, 1914–1919			31.	......	......	82.	......	......	..	......	......	..	......	......	98.			

APPENDIX VI—*Continued.*

Year.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.
	Rails.			Iron (Bars, T. Rods, etc.).			Iron and steel { Plates. Sheets.			Iron nails.			Iron and Steel { Pipes. Tubes.			Locomotives, R. R. Cars, Steam Boilers and Engines.		
Average, 1900–1809	......	......	39.	......	......	2.8	......	......	5.4	......	......	41.5	......	......	43.4	......	......	31.
1910..	1,594	599	38.	7,727	91	1.	4,264	87	2.	2,780	1,559	56.	3,241	1,558	48.	1,917	421	22.
1911..	5,504	3,220	59.	9,283	197	2.	5,664	730	13.	2,364	1,681	71.	4,268	1,582	37.	5,991	1,460	24.
1912..	3,939	2,475	63.	15,392	1,726	11.	9,562	3,108	33.	3,449	2,715	79.	4,963	2,352	47.	5,469	1,456	27.
1913..	4,086	1,922	47.	13,840	635	5.	8,697	1,436	19.	1,370	498	36.	6,934	3,653	53.	6,007	2,580	43.
Average, 1900–1914	......	......	40.	......	......	3.	......	......	9.	......	......	47.	......	......	44.	......	......	30.
1914..	1,879	1,115	59.	9,866	249	3.	7,007	1,325	19.	508	92	18.	4,130	2,564	62.	3,743	814	22.
1915..	603	546	90.	5,612	3,508	63.	7,780	3,111	40.	538	410	76.	1,380	1,071	78.	1,472	471	32.
1916..	440	407	92.	22,508	16,237	72.	22,742	12,092	53.	4,203	3,895	93.	3,435	2,725	79.	2,019	540	27.
1917..	8,814	8,571	94.	46,369	39,476	85.	81,716	87,833	96.	2,530	2,482	98.	8,807	7,878	89.	5,442	3,776	69.
1918..	14,941	14,583	98.	93,015	84,406	91.	79,540	78,229	98.	5,810	5,614	97.	13,776	12,924	94.	11,493	9,905	86.
1919..	21,866	21,750	99.	57,711	50,223	89.	69,357	58,373	84.	5,125	4,898	96.	13,195	11,401	87.	16,065	13,166	82.
Average, 1914–1919	......	......	89.	......	......	67.	......	......	65.	......	......	80.	......	......	82.	......	......	53.

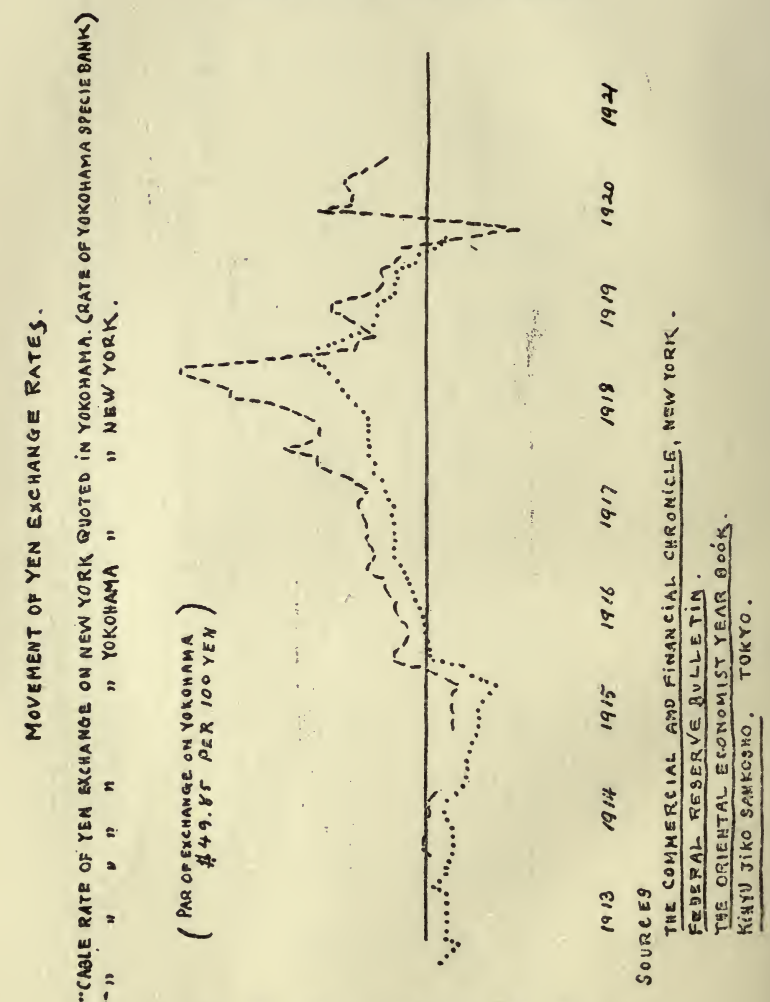
APPENDIX VII

The Bank Rate and Market Rate in Japan



APPENDIX VIII

Movement of Yen Exchange Rates



APPENDIX IX.

THE RATES OF DIVIDENDS PAID BY, AND THE PRICE OF STOCK

		Par value of stock in Yen.	1907 Price.	1907 Rate of dividend.	1908 Price.	1908 Rate of dividend.	1909 Price.	1909 Rate of dividend.	1910 Price.	1910 Rate of dividend.	1911 Price.	1911 Rate of
Spinning Companies.	Amagasaki	25	137	50.	94	35.	99	30.	111	30.	....	30.
	Fuji Gas [1]	50	125	25.	81	16.	96	14.	95	9.	85	10.
	Fukushima	25	....	30.	26	14.	13	12.	45	12.	47	16.
	Imperial Hemp	50	64	12.	55	12.	68	12.	72	12.	72	10.
	Kanegafuchi	50	134	22.	85	15.	84	14.	108	13.	101	12.
	Nippon	25	49	18.5	33	14.	33	11.	32	9.	31	8.
	Osaka Godo	20	64	30.	38	20.	45	20.	48	20.	48	18.
	Settsu	25	140	47.	61	20.	75	20.	83	20.	90	20.
				29.3		18.3		16.6		15.4		15.
Electric Railway Companies	Hanshin	50	159	12.	96	12.3	117	13.	123	13.	118	13.
	Keihan	50	34	5.	20	5.	42	5.	63	5.	61	5
	Keihin	50	99	11.5	69	10.	65	6.	56	4.	44	4
	Kyoto	50	66	7.7	70	10.	80	10.	84	10.	76	8.
	Yokohama	50	67	6.5	43	6.	52	5.	54	5.	59	5
				8.5		8.7		7.8		7.4		7
Electric Light and Gas Companies.	Tokyo Electric	50	81	10.	68	10.5	93	12.	99	12.	73	10.
	Osaka Electric	50	132	15.	117	16.	119	15.5	123	12.	105	12.
	Ujigawa	50	14	5.	8	5.	12	5.	30	5.	39	5
	Osaka Gas	50	69	7.3	79	9.3	95	9.5	105	10.	107	10.
	Tokyo Gas	50	109	15.	83	13.	97	13.	108	12.5	75	11.
				10.5		10.8		11.		10.3		9.
Railroads	Nankai R. R.	50	111	10.	79	9.	86	9.3	80	8.5	78	8.
	Narita R. R.	50	33	5.3	27	5.5	32	5.	40	5.	46	5
	Tobu	50	53	6.5	41	6.5	51	7.	61	6.1	60	8.
				7.3		7.		7.3		6.5		7
Exchanges	Tokyo Produce	50	170	20.5	94	18.7	99	16.	128	13.5	110	14.
	Tokyo Stock Ex.	50	247	25.5	117	10.8	155	15.2	215	16.7	159	13.
	Osaka Stock	50	208	17.5	112	9.5	138	13.	154	11	127	8.
	Osaka Produce	50	99	13.8	76	10.7	91	13.	127	12.	114	11.
				19.3		12.4		14.3		13.3		11.
Miscellaneous Companies.	Fuji Paper Mill	50	54	10.	40	6.	34	6.	32	6.	37	6.
	Dai Nippon Brewing	50	113	15.	80	15.	76	12.	82	12.	80	12.
	Ensui Sugar Ref.	35	17	20.	21	20.	36	20.	51	20.	56	20.
	Taiwan Sugar Ref.	50	62	10.	64	10.	75	14.	97	12.	82	12.
	Nippon Fertilizer	50	90	16.	58	11.	43	9.	50	7.5	53	10.
	Hoden Oil	50	160	36.	120	33.	97	17.5	70	11.	61	11.
	Nippon Oil	50	127	28.	105	24.	98	19.	86	14.	70	12.
	Osaka Mercant.	50	23	6.	17	6.	18	6.	22	6.	23	7.
				17.6		15.6		13.		11.6		11.
Average rate of 33 companies		....	....	15.4	....	12.1	....	11.6	....	10.8	....	10.

[1] This is not a Gas Company but a Spinning Company, in spite of its name.

APPENDIX IX—*Continued.*

OF REPRESENTATIVE JAPANESE INDUSTRIAL COMPANIES.

1912		1913		1914		1915		1916		1917		1918	
Price.	Rate of dividend.	Price.	Rate of dividend.	Price.	Rate of dividend.	Price.	Rate of dividend.	Price.	Rate of dividend.	Price.	Rate of dividend.	Price.	Rate of dividend.
111	30.	....	30.	....	30.	....	30.	....	40.	....	60.	....	60.
88	11.	78	12.	68	12.	85	12.	139	18.	150	31.5	147	55.
75	22.	78	26.	79	26.	101	28.	145	32.5	115	54.	123	80.
73	11.5	74	12.	68	12.	85	12.	110	18.	108	22.5	110	32.5
112	15.	108	16.	100	16.	118	17.	195	30.	247	45.	245	70.
40	13.	42	16.	34	10.	....	....	....	....	....	....	120	61.
51	16.	40	18.	37	18.	49	18.	83	25.	85	45.	125	50.
92	30.	90	30.	85	30.	....	30.	....	38.	....	60.	....	....
	18.5		20.4		19.4		21.		28.8		45.4		58.
114	13.	101	13.	96	12.5	....	13.	....	13.	....	14.	....	13.
63	6.5	60	6.5	52	5.5	48	5.	51	6.5	53	7.5	59	7.5
47	5.5	41	6.	31	6.	29	6.	39	5.5	43	6.	54	8.
60	6.	33	5.	23	4.	....	....	....	....	....	....	....	....
67	7.7	57	8.	54	8.	46	5.4	43	5.	45	6.	50	8.5
	7.7		7.7		7.3		7.4		7.5		8.4		9.3
70	10.	63	10.	56	9.5	53	8.	66	8.	67	9.	80	12.
108	12.	93	12.	75	12.	81	12.	100	12.	107	16.	104	12.
53	5.	48	5.5	48	7.5	56	7.8	67	8.	63	8.	62	8.
106	12.5	91	10.	65	9.3	62	8.6	71	9.	....	8.3	....	6.
71	10.	62	9.5	48	8.	45	7.	58	7.5	58	8.8	57	8.
	9.9		9.4		9.7		8.7		8.9		10.		9.2
77	8.5	67	8.5	61	7.4	64	9.	76	9.3	87	10.	....	10.
52	6.5	52	7.	....	7.	....	7.	....	7.	....	7.8	....	8.
78	10.	74	10.	65	8.5	67	7.4	67	7.7	68	8.	66	9.
	8.3		8.5		8.1		7.8		8.		8.6		9.
107	15.	99	12.7	81	10.	88	13.	144	19.	185	28.	164	22.5
156	12.4	143	11.2	130	9.	165	14.	316	25.4	239	17.	175	14.3
127	8.7	114	7.2	105	5.5	143	13.	325	22.5	287	20.5	201	10.
135	15.	141	21.5	100	11.7	127	15.	199	24.	219	32.	143	20.3
	12.8		13.2		9.5		12.3		22.7		24.4		17.
43	7.5	46	9.	45	9.	51	9.5	96	15.5	105	22.5	105	29.
86	13.	84	13.5	87	14.	102	14.5	132	18.	142	23.5	142	30.
63	20.	50	12,	45	14.	56	14.	87	17.	101	22.5	86	20.
79	12.	71	12.	62	12.	74	12.	109	16.	118	22.5	101	22,
65	11.	59	11.	51	10.	45	8.	71	7.	80	11.	76	16.
66	13.	96	16.5	77	13.5	72	12.	99	16.5	104	20.	108	25.
76	14.	107	20.	110	20.	113	20.	159	25.	143	22.5	111	25.
35	8 5	57	10.	52	10.	72	11.	160	24.	210	45.	205	60.
	12.4		13.		12.8		12.4		17.4		23.7		28.4
....	11.6	....	11.4	....	11.1	....	11.6	....	15.6	....	20.	....	23.5

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